Reconciling Work and Family

Child Care Subsidies as Social Policy

David M. Blau*

Labor force participation by mothers of young children (ages 0 to 5) more than doubled in the United States from 30 percent in 1970 to 63 percent in 2000. Similar trends in many other countries raise the questions of who will take care of children while parents work and how such child care should be financed. Child care is thus an issue of considerable interest to families, employers and policy makers. Among high-income countries, the United States is an outlier in its child care policy, as in many other areas of social policy. Many European countries include publicly-provided and heavily subsidized child care in a portfolio of policies that provide support for families with young children. There is significant public funding of child care in the US, although much less in per-child terms than in Japan and Europe, but it occurs in the context of a market for child care that is the main institution through which child care arrangements are made. Child care markets appear to be much more limited in most other high-income societies. A large majority of child care arrangements in Europe are in public preschools such as *ecoles maternelles* in France and scuola materna in Italy. In those countries, even home-based family day care providers are often part of networks that receive substantial public funding and technical assistance (Waldfogel 2001).

This paper describes US child care policy and compares it to child care policies in other developed countries. The rationale for public child care subsidies is discussed, and US child care policy is evaluated in light of this discussion. A set of principles that could guide reform of the US child care subsidy system is then proposed. The main conclusion of the paper is that US child care policy is too heavily oriented toward facilitating employment and does not provide enough support for high-quality child care.

Child care subsidies in the US and other developed countries

Public subsidies for child care and preschool in the US grew slowly until the mid 1990s and began to grow much more rapidly only with the advent of welfare reform in the mid to late 1990s. In 1999, public child care and preschool subsidies were estimated to be $21 billion (Blau 2001, p. 155), about one third of the approximately $60 billion in total child care expenditure in the US (National Research Council 2003). In contrast, Table 1 shows that 70 to 100 percent of child care expenditures were supported by government subsidies or were made directly by public institutions in many

Table 1
A summary of child care policy in the United States and Europe

Country	Percent of child care costs covered by government	Organization	Quality regulation
United States	25 to 30	Mainly private	Varies by state
Austria		Mainly public	Varies by state
Belgium		Public	National standard
Denmark	70 to 80	Public	Set locally
Finland	85	Public	National standard
France	72 to 100	Public	National standard
Germany		Public	National standard
Italy		Public	National standard
Netherlands		Public and private	
Norway	68	Public and private	
Portugal		Mainly public	
Spain		Mainly public	National standard
Sweden	82 to 87	Public	Set locally
United Kingdom		Public and private	National standard

Sources: Column 1 (Waldfogel, 2001); column 2 (Aderna, 2000), from the DICE Database; column 3 (Kamerman, 2000) refers to the largest subsidy programs in term of coverage.

* David M. Blau is Professor of Economics and Fellow of the Carolina Population Center at the University of North Carolina at Chapel Hill.

European countries. Subsidies have been increasingly targeted to low-income families in the US, but a large majority of such families remain unserved by existing programs (Blau 2003b).

There are several large child care subsidy programs in the US and dozens of smaller ones. Some of the subsidy programs are restricted to employment-related child care expenses, for example, the Child Care and Development Fund (the program created as part of the 1996 welfare reform) and the income tax credit for child care expenses (the Child and Dependent Care Credit). Others such as Head Start and Title I preschool have no employment requirement. The latter are typically part-day, part-year programs designed to improve the cognitive development of disadvantaged children. The goals and structure of employment-related child care subsidy programs are quite different from those of early education preschool programs. Nevertheless, the two types of programs are closely related. A subsidy for work-related child care expenses may affect the quality of child care purchased, whether or not this is a goal of the subsidy program, and an early education program may affect the work incentives of the parents, whether by design or not. All such programs can be thought of as being located on a two-dimensional spectrum with respect to the restrictions on the use of the subsidy. One dimension is the employment requirement of the program, with one end of the spectrum requiring full-time parental employment in order to be able to receive a subsidy and the other end not requiring any employment. The other dimension is the quality of child care required in order to be eligible for a subsidy, with one end of the quality spectrum having no restriction on the quality of child care and the other end allowing the subsidy to be used only for child care that meets rigorous quality standards. The choice of where to locate a program in this spectrum is a policy decision. In 1999, only one third of child care subsidies were in programs with a major focus on quality, while the other two thirds were in programs with little emphasis on quality, but strong employment requirements (Blau 2001). In contrast, many other countries place a strong emphasis on quality, which is ensured by public provision and relatively generous funding and coverage. As shown in Table 1, quality is more tightly regulated in Europe, and subsidies are significantly more generous than in the United States.

The rationale for child care policy

Two main arguments have been used in support of government support for child care. The arguments are based on attaining economic self-sufficiency and child care market imperfections.[1]

<u>Self-sufficiency.</u> Child care subsidies might help low-income families be economically self-sufficient. Self-sufficient in this context means employed and not enrolled in cash-assistance welfare programs. Self-sufficiency might be considered a desirable goal because it may increase the likelihood of future self-sufficiency by inculcating a work ethic and generating human capital through on-the-job training and experience, and it may therefore save the government money in the long run (Robins 1991, p. 15). This argument explains why many child care subsidies require employment or work-related activities such as education and training. Subsidies for child care and other work-related expenses paid to employed low-income parents may cost the government more today than would cash assistance. But if the dynamic links suggested above are important, then these employment-related subsidies could result in increased future wages and hours worked and lower lifetime subsidies than the alternative of cash assistance both today and in the future. Note that this argument has nothing to do with the effects of child care on children, and there are few restrictions on the type and quality of child care that can be purchased with employment-related child care subsidies.

Recent evidence in a careful study by Gladden and Taber (2000) indicates that wage growth of low-skill workers in the US is modest on average and is not high enough to lift low-skill workers out of poverty. For example, high school dropouts averaged 4.4 percent real wage growth per year of actual work experience over the first ten years of work. Thus, if the average high school dropout began working at the minimum wage of $5.15 per hour, after ten years of work experience her wage rate would have increased to $8.00. This is not negligible but is also not enough to significantly reduce dependence on government assistance.

[1] It is sometimes asserted that there are shortages of child care of particular types such as center care for infants, weekend and night-shift care, high-quality care and care for sick children. Subsidies to providers of such types of child care might increase the quantity available. Standard economic arguments suggest that shortages will be the exception rather than the rule and will be temporary when they do occur. See Blau (2001) for a more thorough discussion of this issue.

Market Imperfections. The second main argument for child care subsidies is the existence of imperfections in the child care market. The imperfections that are often cited are imperfect information available to parents about the quality of child care and positive external benefits to society generated by high-quality child care. Walker (1991) spells out these points in detail; the discussion here follows his arguments closely. Imperfect information in the child care market exists because the quality of care offered by any particular supplier is not fully known by consumers. If consumers know less about product quality than does the provider, and monitoring the provider is costly to the consumer, this can lead to moral hazard (hidden action) and/or adverse selection. Moral hazard is a plausible outcome in day care centers (for example, waiting to change diapers until just before the parent arrives to pick up the child). Adverse selection of providers is plausible in the more informal family day care sector. Family day care is a very low-wage occupation, so women with high wage offers in other occupations are less likely to choose to be child care providers. If the outside wage offer is positively correlated with the quality of care provided, then women who chose to work in child care would offer lower-quality care than would the potential care-givers who chose other occupations.

Is there evidence that child care consumers are not well informed? Walker (1991) reports that 60–80 percent of child care arrangements made by low-income parents are located through referrals from friends and relatives or from direct acquaintance with the provider. This suggests that consumers may not be well-informed about a wide range of potential providers, but it does not prove that a sub-optimal amount of information is used by consumers. Cryer and Burchinal (1995) report a direct comparison of parent ratings of various aspects of their child's day care center classroom with trained observer ratings of the same aspects. The results show that parents give higher average ratings on every item than do trained observers, by about one standard deviation on average for preschool age classrooms and by about two standard deviations on average for infant-toddler rooms. The instrument containing these items is of demonstrated reliability when administered by trained observers, so this suggests that parents are not well-informed about the quality of care in the arrangements used by their children.

Child care subsidies targeted at high-quality providers could induce parents to use higher-quality care by reducing the net price to consumers of such care compared to the price of lower-quality care. This would not necessarily solve the information problem, but would deal with a consequence of that problem, namely a level of child care quality that is sub-optimal from the perspective of society.

The externality argument is a standard one that closely parallels the reasoning applied to education. High-quality child care leads to improved intellectual and social development, which in turn increases school-readiness and completion. This reduces the cost to society of problems associated with low education: low earnings, unstable employment, crime, drugs, teenage childbearing and so forth. If parents are not fully aware of these benefits, or account for only the private rather than the social benefits of high quality child care, then they may choose child care with less than socially optimal quality. This argument could rationalize subsidies targeted to high-quality providers, such as Head Start.

Does current US child care policy adequately address child care problems?

The discussion in the previous section suggests that the main problem in the child care market is the potential risk to the development of children from being exposed to many hours of low-quality child care. Evidence indicates that child care quality is relatively low in the US because of low willingness to pay by parents, not because of a failure on the supply side of the market (Blau 2001). Low willingness to pay could arise from lack of information by parents concerning how to distinguish high and low quality care or from lack of awareness of the benefits of high quality care and the risks of low quality care. Even parents who are fully informed may choose child care of less than optimal quality from a social perspective, if parents fail to account for the benefits to society at large from high-quality child care.

The problem of low quality of child care is not an employment problem. Yet, the majority of child care subsidy funds in the US are available only to employed parents and do not place significant restrictions on the quality of care or provide incentives to use high-quality care. There is no obvious economic inefficiency in the child care market for which these subsidies are a logical remedy. They encourage employment of both parents in two-parent families and of the single parent in one-parent families, but it is not clear why society should wish to provide such encouragement in the absence of evidence that low-wage employment leads to significant earnings growth. They increase the well-being of families in which both parents are employed, but do not provide benefits to families in which one parent stays home to take care of children. Policies that deal directly with the underlying causes of low labor market skills would be more a more logical approach to the problem of welfare dependence than a child care subsidy.

Head Start and Title I Preschool are the only major subsidy programs that require high quality child care in the US. These programs account for about one third of all child care subsidies, and a much smaller proportion of all children in subsidized child care. Head Start and Title I are usually not even thought of as child care subsidies, but rather as early education programs for disadvantaged children. They are not designed to facilitate parental employment and are therefore generally not classified as child care programs. But setting aside labels, employment-related and child development–related programs both subsidize care of a child by someone other than the parent, which reduces the cost to the parent of being employed, whether by design or not. And they affect child development via the quality of the care provided, again whether or not this was intended. Viewed in this way, the problem with current child care policy is clear: two thirds of subsidy dollars require employment but not quality. This imbalance does not address the fundamental problem in the child care market.

How should the US change its child care policy?

Child care subsidies that require employment increase the quantity of child care demanded but do not increase the quality of care demanded. Demand for high-quality child care will not increase unless consumers have better information about child care quality and stronger incentives to purchase higher-quality care. The quality of child care is almost surely not the most important determinant of child development and well-being, but it is a potentially important factor, particularly for low-income children. And child care quality may be easier to change through policy than are aspects of the home environment that affect child development. The following suggested principles for child care policy reflect research findings about the child care market as well as judgments about the goals that child care policy should try to achieve.

Child care policy should be neutral with respect to employment. There are no compelling economic or moral reasons for society to encourage employment of both parents in a two-parent middle-class family. There may be a more compelling case for encouraging single parents to achieve economic independence through employment. But a child care subsidy is at best an indirect approach and at worst an ineffective approach to accomplishing this goal. Indeed, employment-related child care subsidies are likely to have the unfortunate side effect of increasing the amount of low-quality child care experienced by children from low-income families. Instead of subsidizing the employment of parents, government should, if anything, subsidize the costs of raising children, without favoring market costs for child care over the foregone-earnings cost of a parent who stays home to care for a child.

Child care policy should provide information to parents about the benefits of high-quality child care, about how to discern the quality of care and about how to find high-quality care. As in all markets, well-informed consumers are the best monitors of quality.

Child care policy should provide incentives for parents to choose high-quality care. Even if parents are generally aware of the developmental benefits of high-quality care, they may not value those benefits much compared to other things they can buy. For example, parents may feel that their own influence on the development of their children can make up for the effects of low-quality care or that the developmental outcomes measured by standard cognitive, social and emotional assessments are less important than, say, religious values, respect for authority and other intangible attributes. If consumers are given sufficient incentives to choose high-quality care, then providers will have an incentive to offer such care.

Child care policy should encourage the development of programs to help providers learn how to improve the quality of care. An essential feature of a competitive market is that firms can prosper only by offering the services consumers are willing to pay for. Thus, direct subsidies to providers should not be necessary. Providers will have an incentive to increase quality in response to consumer demand, but they may lack the knowledge to upgrade quality. Thus, subsidies for technical assistance to child care providers could be appropriate.

Child care policy should be progressive, with benefits being larger for children in poor families. Because children in poor families are at greater risk of developmental delays and the problems that result from such delays, the benefits of high-quality child care are therefore likely to be larger for them. Equity considerations also favor a progressive child care policy.

Child care policy should be based on incentives, not regulations. Regulating an industry such as child care, with its hundreds of thousands of providers, is likely to be either very costly or ineffective. Evidence suggests that current regulations imposed by the states in the US are not very effective at improving the quality of care being provided (Blau 2003a). Of course, states should not be discouraged from regulating basic safety and health aspects of child care. But financial incentives can be more flexible than regulations, and well-designed incentives can be self-enforcing rather than requiring a monitoring bureaucracy.

Child care policy should presume that well-informed parents will make good choices about the care of their children. Government can provide the best available information to inform parental decision-making, along with incentives for parents to make good choices. But government should not limit the freedom of parents to arrange care for their children as they see fit (subject to regulations regarding neglect and abuse). Not all parents will want to take advantage of subsidized care in preschools and family day care homes, no matter how high the quality of care provided. Some parents will prefer care by a relative or close friend; some will prefer care in a church-based setting that emphasizes religion, and some will prefer care by a babysitter in the child's home. Although these choices may not be optimal in fostering child development, government should not coerce parents to raise children in a particular way. Parents should remain the decision-makers.

Conclusions

The arguments in this paper suggest that child care subsidies in the US are not well-designed to deal with problems in the child care market. This does not necessarily imply that the US should abandon its market-oriented approach to delivery of child care services. Markets have many advantages over public delivery of services, and subsidies can be designed to improve market outcomes rather than replace the market. The US could benefit from careful study of child care subsidy systems in Europe. But it is not necessary for the US to abandon its traditional market-oriented approach to child care in order to develop a more rational approach to child care subsidy policy.

References

Aderna, W. (2000), "Family Friendly Policies: The Reconciliation of Work and Family Life", DEELSA/ELSA/WP, retrieved from the DICE database.

Blau, D. M. (2001), The Child Care Problem: An Economic Analysis, The Russell Sage Foundation, New York.

Blau, D. M. (2003a), "Do Child Care Regulations Affect the Child Care and Labor Markets?", Journal of Policy Analysis and Management 22 (3), 443–65.

Blau, D.M. (2003b), "Child Care Subsidy Programs", in R. Moffitt, ed., Means-Tested Transfer Programs in the United States, University of Chicago Press, Chicago, for the NBER, pp. 443–516.

Cryer, D. and M. Burchinal (1995), "Parents as Child Care Consumers", in S. W. Helburn, ed., Cost, Quality, and Child Outcomes in Child Care Centers, Technical Report, Department of Economics, Center for Research in Economic and Social Policy, University of Colorado at Denver, June, pp. 203–20.

Gladden, T. and C. Taber (2000), "Wage Progression Among Less Skilled Workers", in R. M. Blank and D. Card, eds., Finding Jobs: Work and Welfare Reform, Russell Sage Foundation, New York, pp. 160–92.

Kamerman, S.B. (2000), "Early Childhood Education and Care: An Overview of Developments in OECD Countries", International Journal of Education Research 33, 7–29.

National Research Council and Institute of Medicine (2003), Working Families and Growing Kids: Caring for Children and Adolescents, Committee on Work and Family Policies, E. Smolensky and J. A. Gootman, eds., Board on Children, Youth, and Families, Division of Behavioral and Social Sciences and Education, National Academies Press, Washington DC.

Robins, P. (1991), "Child Care Policy and Research: An Economist's Perspective", in D. Blau, ed., The Economics of Child Care, Russell Sage Foundation, New York, pp. 11–42.

Waldfogel, J. (2001), "International Policies Toward Parental Leave and Child Care", The Future of Children: Caring for Infants and Toddlers 11 (1), 99–111.

Walker, J. (1991), "Public Policy and the Supply of Child Care Services", in D. Blau, ed., The Economics of Child Care, Russell Sage Foundation, New York, pp. 51–86.