

Child Care Market: Supply, Demand, Price and Expenditures

The Policy Institute for Family Impact Seminars



Family
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Seminar

The Child Care Market: Supply, Demand, Price and Expenditures

January 13, 1989, Cannon House Office Building, Rm. 210

Panelists: **Rachel Connelly** Ph.D. economist, Bowdoin College
 Sandra Hofferth Ph.D. sociologist, Urban Institute
 Rebecca Maynard Ph.D. Vice President, Mathematica Policy Research

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The Child Care Market: Supply, Demand, Price and Expenditure

**Background Briefing Report
and
Meeting Highlights**

by

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The Child Care Market: Supply, Demand, Price and Expenditures

Highlights of the seminar meeting held on January 13, 1989, Cannon House Office Building, Rm. 210 (a supplement to the Background Briefing Report)

Conventional wisdom holds that there is a national shortage of quality affordable child care of near-crisis proportions. In an attempt to step back from the political debate about the numerous child care proposals in the 100th Congress this seminar, the first in a series of three, focused on an examination of the market for child care. Three researchers examined questions like: What is the nature of the child care crisis? What kinds of shortages exist? What is meant by affordable child care? And, what are the child care needs of low income families?

Summary of Panelists' Presentations

Rachel Connelly, an economist at Bowdoin College and a visiting scholar at the Census Bureau, presented an economic framework for understanding the child care market. Child care is a service industry that has seen a dramatic expansion in the past several years. As more mothers of young children enter the labor market, more families are purchasing child care.

Connelly began by describing how a family makes a decision to purchase child care. The problem that every two parent family with young children faces is that it must simultaneously decide who will work in the labor market and who will take care of its young children. But a mother who decides to stay home to take care of the children does not provide these services free to the family since the family must take into account the income she will be losing by staying at home. The higher the mother's earning capacity in the paid-labor force is, the less likely she will be willing to stay home to raise the children. Among the other factors that families take into account are the cost of alternative child care and other costs related to employment, the economic value they place on the mother's time with her children, and the long run costs of her time out of the labor force.

A single parent has similar decisions to make. Although the economic pressures on her to work are usually strong, since her wages are often low if she has to pay for child care it may not be worth it for her to work.

Connelly outlined four types of child care: family day care, center-based care, non-relative in-home care, and relative care. She also described features that make each type unique in an economic sense. A family day care home is often run by a mother of young children who cares for outside children as well as her own. Thus her decisions about what she charges for her services is influenced by her not having to pay for child care herself. Centers, says Connelly, will behave like firms, in that they will try to maximize profits. But 58% of centers are not for-profit, they generally receive subsidies and they are often cheaper than commercial day care at the same level of quality. With relative care, one must consider the earnings foregone by the relative who is providing the care.

In conclusion Connelly said that in general the supply of child care has been responsive to increased demand and there is no evidence of widespread shortages of child care slots. However, there is evidence that parents would prefer the price of quality care to be lower, and if it were, more mothers would choose to work. Since infant care is inherently more expensive than toddler care, the problem of high prices will be more acute for those with infants. There may also be a problem in the market due to paucity of information about child care availability making the search very costly.

Sandra Hofferth, a sociologist at the Urban Institute presented an overview of the national data on the supply and demand for child care in the U.S. She identified several trends in child care based on national studies.

- The numbers of children under age 6 with mothers in the labor force increased 80% since the 1970s. The largest increase in maternal employment was for mothers of children under age one. In 1987 there were 11.2 million pre-school children with mothers in the labor force.
- Hofferth predicts that, if current trends in maternal labor force participation continue, by 1995 there will be just under 15 million preschoolers with mothers in the labor force. But trends also predict that not all of these children will need out-of-home non-relative care. Currently 48% of preschool children are cared for by a relative (this includes fathers), 6% are cared for by a sitter in the child's home, 22% are in family day care, and 23% are in centers.

However, striking changes have occurred in child care arrangements over the past decade:

- There has been a decline in care by relatives and care by a sitter in the home, a small increase in the use of family day care homes and a dramatic increase in center-based care.
- Maternal employment is not the only reason for the increased use of formal child care. There is also a national trend toward earlier pre-school education for young children in general.

The supply of different types of child care has increased a great deal in response to rising demand, but prices have not increased much in real terms.

- Best estimates are that licensed center day care has doubled over the last 10 years. The number of family day care homes in operation is unknown since an estimated 50 to 90 percent are unlicensed. Compared with figures from 1977, the number of licensed family day care homes was estimated to have increased by about one third in the last 10 years.
- Of those who paid for child care, the mean hourly expenditures in 1985 ranged between \$1.00 and \$1.50 per hour for different types of care (for the youngest child under 5). Full time care, for 40 hours per week, would thus come to between \$40 - \$60 dollars a week (\$2,000 - \$3,000 per year).
- National data on what families spend on pre-school child care suggest that low income families pay up to 25% of their income on child care, while higher income families spend about 5%. The average across all incomes is about 10%.

In conclusion, Hofferth summarized five possible problem areas in child care: a shortage of supply of licensed family day care slots; a shortage of licensed care for very young children, especially infants; a geographic mismatch between supply and demand in particular communities; the price of care may be too high for many poor families; and parents may not be able to get the quality or type of care they want.

Rebecca Maynard, an economist and Vice President of Mathematica Policy Research Inc., discussed findings of a recent Mathematica survey on the child care market faced by low income families in three urban areas: Camden, and, Newark, NJ, and south Chicago and preliminary findings from the Minority Single Parent Demonstration (MFSP) program. (Findings from their studies are summarized in the briefing report.) Maynard began by saying that the low income population is important because it appears to be where the most problems are, but the low income population is the most difficult population to study because many low income families do not currently use child care.

Most of the low income families sampled were single-parent families and in only 30% of the families was the single parent working. Only 17% of two parent families are poor. Child care may be critical to improving the economic status of low income families.

Another reason to focus on child care for low income families is that attitudes toward mother's work has changed. The recently passed welfare reform act which requires mothers with children over age 3 to participate in school, training or work programs is one example of a shift in national opinion toward a parent's obligation to financially support their children taking precedence over their desire to stay home and care for them themselves.

Maynard pointed out that if and when the welfare reform act was implemented to its full extent, there could be as much as a 10% increase in the demand for child care.

Three important new findings from these studies are:

- Family day care homes (including unlicensed) are apparently under used; providers report that they have the capacity to double the number of children they care for. Centers on the other hand are operating at or near capacity.
- Both child care centers and family day care homes are, on average, well within recommended child/adult ratios.
- Programs designed to help AFDC recipients enter the labor force need to provide a great deal of help to mothers to find and use child care services.

Points made during the discussion

- One participant pointed out that if you add together the number of working mothers whose children are cared for at home or by a relative, and the number of children with non-working mothers, seventy percent of all pre-school children are still cared for outside the market by a parent or by a relative.
- How many mothers would prefer to stay home and take care of their children if they could afford to? The Mathematica study did not address that question. The only information on that question, said Hofferth, is a recent *USA Today* survey in which a majority of the mothers said they would stay home if they could afford to. It is not known at what income level mothers would feel they could afford to stay home.
- Maternal labor force participation is higher among high income families which suggests that these women work for reasons other than financial "need" or that their opportunity cost of staying home is too high for this group.
- Is there any way to measure the dimension of non-economic factors that motivate women with young children to be employed? Connelly answered that there is a distinction between using an economic framework and using economic considerations like price and income. An economic

decision making model includes factoring in other kinds of utility obtained from working such as social relationships, or self-worth issues. She also said that in her opinion the changes in women's employment rate in the last 20 years has a lot to do with these non-economic factors.

- One panelist said that one of the good outcomes of the Family Support Act is that poor women will be in the labor force earlier. If they stay in the labor force, they will have higher salaries down the road. Maintaining a presence in the labor force is also one of the reasons middle class women choose to stay in the labor force while their children are young.
- The Mathematica study of child care markets reported that 50% of low income mothers say they would work if they could find suitable child care. But this may not reflect a lack of supply. Rebecca Maynard said that many mothers in the MFSP program and in other employment and training programs for low income parents have needed a lot of coaching before they were able to choose and use a child care provider. Once firmly established with a provider things generally worked out.
- When asked if her economic analysis of the child care market assumes that there is no reason for government intervention, Connelly said that while the market for child care is working reasonably well, there are a number of social reasons (which economists call "externalities") for intervening in the child care market such as:
 - A Child's Well-being. Research indicates that early childhood education gives an educational advantage to children most at-risk of failing in school and or themselves receiving welfare. Thus, child care can be a way to intervene in the cycle of poverty.
 - Intergenerational and Gender Equity. Government funding of child care could be a way of redistributing income from families without young children to families with young children, and to some extent from men to women since child bearing and raising are an economic handicap for women's participation in the labor market.
 - Societal Benefits. Intervening in child care may be a more efficient way of doing something the government is already in the business of doing. Early education may be more cost effective than remedial reading in the sixth grade or juvenile detention.

THE CHILD CARE MARKET: SUPPLY, DEMAND, PRICE & EXPENDITURES

*Background Briefing Report**

QUESTIONS ABOUT THE MARKET

A broad array of interest groups, scholars and policymakers advocate an expansion of the government's role in the child care market and agree on the need to improve child care availability, affordability and quality. Yet even within this consensus there are very different goals and priorities for child care and some of these priorities are in conflict.

Others challenge the basic assumptions of those who advocate for such an expanded government role, namely, the conclusion that the child care market is not working effectively: that the supply of child care is not sufficient to meet the rising demand and that the cost of child care is "too high". The meaning and validity of these assertions about the child care market they believe need to be critically examined.

In this background report we assume the perspective of the family as the consumer of child care services and suggest the following major questions need to be raised about the child care market:

- What determines families' decisions about whether the caregiver parent should become employed and purchase alternative child care?
- What is meant by child care *availability*? Are families facing a shortage of child care generally or only of specific types of care or is there no evidence of shortage at all?
- What factors determine whether families use paternal or relative care when the mother works?
- Do certain types of families or families in certain situations have more difficulty obtaining child care than others? If so, why?
- What is meant by saying that a family cannot find *affordable* care?
- Do families generally have a choice among different types of care?
- To what extent can they obtain the type of care they prefer?
- What are some of the other problems (market imperfections) that parents face in seeking child care now and in the future?

** The report for the second seminar will focus on current policy and factors affecting child care quality; and the third will examine economic and social goals underlying various child care proposals and the tradeoffs between policy options.*

STATUS OF RESEARCH ON PRE-SCHOOL CHILD CARE.

We know relatively little about the child care market. Given the dramatic increase in maternal employment in the last two decades and the concomitant growth of the child care industry, it is surprising that such large information gaps exist.

Although a few large-scale studies were conducted in the early 1970s no national studies focusing on child care were funded by the federal government (or private sector) in the first six years of the Reagan Administration. However, the basic patterns and characteristics of maternal labor force participation and child care arrangements are available from government surveys conducted primarily for other purposes or as special child care supplements to these surveys. These include: Current Population Surveys and the Survey on Income and Program Participation (Census Bureau); the National Survey of Family Growth (National Center of Health Statistics); the National Longitudinal Survey of Youth's Labor Market Experience (Dept. of Labor); Consumer Expenditure Survey (Census Bureau and Dept. of Labor) and the Employment Opportunity Pilot Projects survey (Dept. of Labor).

There is considerably less adequate information on the nature and characteristics of the supply of regulated group child care. The two main surveys provide no information about the ages of the children served in the centers or their geographical distribution. (See Abt Associates, 1978 and Children's Defense Fund, 1985). And there is only one national study, conducted in 1976-80, of the most commonly used type of care, family day care, over 90% of which is informal (i.e. unlicensed) care provided by relatives, neighbors, friends and others (Fosburg et al. 1981). We know the least of all about families as providers and consumers of care. There is virtually no research on the unpaid care provided by fathers, grandmothers and other relatives. Most strikingly, while anecdotes abound, there is very little empirical research on parents' child care preferences, satisfaction with child care or how parents make child care decisions.

However, several major new studies which will remedy many of these gaps are currently in progress and are funded by the federal government and private foundations. (See below, *Research in Progress* p. 10)

AN ECONOMIC FRAMEWORK

(Sources: Connelly, 1989, Blau & Robins, 1988, Heckman, 1974)

Families are both the consumers of child care and a major provider of care. The demand for child care results from families' decisions about whether the caregiver parent (usually the mother) should become employed *and* of her choice of alternative child care when she does so. While non-monetary factors (psychological and social) may play a significant role in the maternal employment decision for some families, we will assume here that families make these decisions based primarily upon monetary considerations.

Economic theory predicts, and empirical research confirms, that the demand for child care is responsive to the price of care especially in two-parent families. In all families the decision about whether the mother should be employed will involve weighing the costs and benefits of employment against those of remaining at home to care for her child. Single parents choosing not to work may mean choosing to receive welfare. However if women perceive a high social cost associated with public dependency they may be relatively unresponsive to child care price considerations. And with the passage of the Family Support Act in 1988, most welfare parents with children over three years of age will soon no longer be allowed this option. However, the Act should also lower the price of child care for them through various subsidies.

Families calculate the net economic gain they will receive from the caregiver becoming employed. On the benefits side are the increased family income (net of taxes and child care credits), which depends on the wage/salary rate the mother can earn in the market, and the fringe benefits that the job provides (e.g. health care insurance, pensions etc.). On the cost side of this calculation are her various work-related expenses such as child care, transportation, clothing and other items. Child care is normally considered to be the major cost item.

But the cost of child care varies a great deal among families. First, it depends on the number of children needing care and the number of hours the mother works and needs the care. Second, the decision to work does not automatically result in a family purchasing child care. Many families are able to obtain free or very low cost child care by; a) working schedules that permit sharing the care between the parents (Presser, 1988); b) using unpaid care of relatives or friends; c) the caregiver caring for her own child while working usually while caring for other children in her own home (Connelly, 1988). The decision to use non-market care may reflect an evaluation of quality as well as price.

But these non-market options are not available to many families, whose only choice is to purchase child care in the market. The price of purchased child care varies, depending on the type and quality of care. However this price differential appears to be narrowing (Hofferth, 1987).

The demand for purchased child care therefore depends upon the price of care, the caregiver's potential income and the availability to the family of non-paid care. If women's wage rates rise the demand for care will rise. At every price, if the price of care increases the quantity demanded of child care will fall. Parents who can obtain free or low cost alternative child care are at a considerable economic advantage and, all other things being equal, are more likely to be employed.

On the supply side, providers of paid child care are responsive to the market price of care and to changes in the costs of providing that care. If the price rises, the supply of care increases. However if the costs of providing the care rise and cut into the provider's net income (profitability) the supply (other things being equal) will fall. A complication arises from the fact that most child care providers are also women which creates an inherent tension between their interest in higher wages and the interests of women who are consumers of child care. Also, relatives who provide free or low cost care may be less inclined to do so if their own employment options improve.

The consensus of analysts using this economic framework is that the child care market is currently working in that there is no evidence of a general shortage of *licensed child care slots* at current prices. In fact conservative estimates are that the number of licensed group care slots has more than doubled over the past decade and are serving an increasing proportion of children in child care (Prosser, 1986). If there were a shortage one would expect prices of licensed group care to have risen sharply and they have not (Hofferth, 1987).

Data often cited as evidence of a "shortage" do not hold up under close examination. Indicators most often used are (1.) The number of children requiring care because their mothers are in the labor force are compared with the much lower number of available licensed, purchased child care "slots" whereby a shortage is inferred. In fact there are very few pre-school children left without care. As noted many families use non-market child care---parental, relative or informal unlicensed care. (2.) Long waiting lists at child care centers and centers filled to capacity are cited as clear evidence of unmet demand. Waiting lists are a rather weak indicator of inadequate supply since a child on the list may often be receiving care somewhere else and parents may put the name down on several lists. Waiting lists undoubtedly do reflect some degree of unmet preferences for type of care. (3.) Surveys that reveal percentages of non-working mothers who claim they would work if cheaper, or more "affordable", child care were available are cited to show unmet demand (e.g. Presser and Baldwin, 1980 and Bureau of the Census, 1982). Such responses however are evidence of families' rational economic choice that it is not worth their while for the mother to

become employed at current child care prices and given her potential wage. They are therefore a complaint about the *price* of care and the market price of her labor not evidence of unavailability *per se*.

If there is no general shortage of child care, that is if *quantity* is not the issue, what are the problems in the operations of the current child care market, if any? One analyst contends that by most conventional economic criteria the child care market is performing well. It offers a diverse range of services, stable prices, and has responded promptly to increased demand, changing needs and preferences of families (Haskins, 1988). In addition a small, but growing, percentage of employers, facing local labor shortages, offer different types of child care assistance to attract or retain women employees.

On the other hand there are many experts who contend that serious problems exist with respect to child care affordability and quality that require public remedies. The issue of affordability and other imperfections in the market are discussed below after the overview of national data.

OVERVIEW OF NATIONAL DATA RELATED TO CHILD CARE

Maternal Labor Force Participation

(Sources: Hayghe, 1984, and 1986, Hofferth and Phillips, 1988, Bachu and O'Connell, 1988, Besharov and Dally, 1986, Department of Labor, 1987, Kahn & Kamerman, 1987)

The rising demand for child care reflects two recent demographic trends. First, since 1980 there has been a rise in the total number of young children, an "echo" phenomenon of the baby boom generation now reaching their twenties and thirties and having their own children. Second, in the last two decades there has been a sharp increase in the employment of married mothers with young children, the group that traditionally has been least likely to be employed.

- The most rapid growth during this period was for mothers with children under age six whose participation rose from 30.3 % in 1970 to 53.8 % in 1986; with children under three years of age the increase was from 25.8% to 50.9%. (Note: labor force participation rates include those employed part time and full time, and those who are unemployed and looking for work.)
- Between 1970-1985 labor force participation rates of mothers with children under age 18 increased from 43% to 55%, and for married mothers from 40%-60%.
- The most recent figures available are for July 1987 51% of mothers of children under age 6 were employed; 56% of those with 3-5 year olds and 47% of those with children from birth through 2 years of age (see Table A).
- If present trends continue Hofferth predicts that by 1995, two-thirds of preschool children will have mothers in the labor force (See Figure 1). The Labor Department forecasts that by the year 2000 approximately 47% of the workforce will be women, compared with 45% in 1988.

The chances that a mother will be employed vary considerably by race, age of youngest child, number of children, marital status and income. Black mothers are more likely than white to be employed, although these differentials are narrowing. Divorced mothers have higher rates of employment than married or never-married mothers. Hispanic married mothers have the lowest labor force participation rates. And in low income families mothers are less likely to be employed than in those with higher incomes.

Although these trends are dramatic, mothers' labor force participation should not be exaggerated. Most mothers are *not* working full time. Currently 40% of mothers are *not* employed outside the home, and, of the 60% who are employed, one third work part-time.

Trends in Child Care Arrangements.

(Sources: Hofferth and Phillips, 1987, O'Connell and Bachu, 1987, McGroder, 1988)

Figure 2 shows the percent distribution of preschool children in different types of care in 1985 and trends since 1965. Although there has been a decline in the use of relative care and a fairly dramatic shift towards use of formal day care about half of all children are cared for by their fathers or another relative in their own or their relative's home while their mother works. Father care has remained at a steady 25% over the past two decades. In a nationally representative sample of young married dual-earner families, 30% of full-time workers and nearly 40% of part-time workers worked some kind of shift schedule enabling the parents to share the care of their children between them (Presser, 1988). Family day care by strangers and formal day care centers are used in about the same proportion. However adding together family day care and relative care, informal, unlicensed care in a home setting remains the dominant mode of child care in the U.S.

Children of mothers who work part time, and children of low income mothers are more likely to be cared for by relatives. Infants and toddlers are more likely to be cared for in informal settings. The recent shift towards formal group care centers largely reflects the trend towards earlier education for all children in general and the increased enrollment of children in preschool and all day kindergarten. This trend is somewhat independent of maternal employment.

Costs, Prices and Expenditures

These three terms are used too loosely and interchangeably in discussions of child care. Curiously, "price" is a term rarely used at all. And they have different meanings, thus:

- A family's actual cash *expenditures* on child care may not reflect current *prices* of market care, since some care is provided free or very cheaply through relatives, friends or neighbors. And prices charged for the second child in the same family are often reduced.
- The price of a particular child care service may not adequately reflect the full cost of providing the care since it may be subsidized in various ways by the government, church, business or volunteer labor.
- The net cost of child care to the family may be less than the price it pays if a tax credit is claimed, or subsidy received.

Costs and prices. National data on costs of child care are not very good as they seldom reflect the full costs of care, or take into account the various subsidies. Moreover they are generally not calculated on a per unit hour basis which is the most useful measure. Prices often quoted for full time licensed urban child care range from between \$45-\$75 dollars a week, or \$1,200-2,200 (for family day care) and \$2,200-3,200 (for center care) a year. Prices vary considerably depending on locale, and age of child.

Estimates are that between 60-80% of the cost of center care are the costs of wages and salaries. Child care providers typically earn very low wages, under \$5 an hour. About 50% of child care centers operate on a for-profit basis, thus the fees are set to allow for a reasonable profit. Non-profit centers are often subsidized through their sponsoring institution e.g. church or school and by grants and volunteer services.

Expenditures. Data from several consumer surveys has been compiled by Hofferth (1987) to document what consumers spend on child care for different types of care and how these expenditures have changed over the past decade.

- In 1985, 20% of families with an employed mother paid nothing for their child care. Of those who paid, the average payment per week was \$37 for one child under age 5 for about 30 hours of care per week. The payment would be between \$40-\$60 a week for full-time care.
- In 1985, for those who pay, the mean hourly child care payment is about \$1.50. For different types of care it was: \$.99 for care by a relative, \$1.17 per hour for family day care; \$1.37 for center care and \$1.49 for non-relative care in child's home.

When comparing the trends two findings are important. First, when adjusting for inflation real expenditures on center care have hardly risen at all and family day care homes only slightly. Whereas expenditures on relative care and non-relative care in the child's home have risen quite a lot. Second, whereas in 1975 there was considerable variation in the price of care for different types of care this differential has narrowed considerably over the decade and is now not very great.

THE ISSUE OF AFFORDABILITY

Assertions are often made by experts and consumers alike about child care not being "affordable", and the "unreasonable costs" of child care are considered a barrier to many women's entering the labor market. Indeed two noted experts contend that "Parents can not manage full costs (of child care) except at very high income levels" (Kahn and Kamerman, 1987, p. 263).

One way of analyzing this issue is to examine expenditures on child care as a proportion of family income. Hofferth (1987) has shown that in 1985 families with a youngest child under five who paid for care spent 11% of their income on child care. However, this proportion varies a great deal by income. Poor families pay between 20% to 26% of their income on child care and families with income over \$40,000 spent less than 5% of their income. (Note: This does not take into account the child care credit claimed by middle and higher income families or any subsidies low income families may receive through the earned income tax credit or the AFDC child care disregard.)

The question of what constitute "reasonable" costs is essentially a value judgement. However, from these data it is clear that for those poor and low income families that do not have access to unpaid care, child care costs represent a very high proportion of the total family budget, approaching the cost of housing. They also constitute a significant barrier to maternal employment especially when there is more than one child needing care. It is important to remember that most poor single parents do not have the realistic choice two parent families have of remaining home to care for their children themselves.

LOW INCOME AND AFDC FAMILIES.

Concern about the poverty and welfare dependency of female-headed families has created a growing interest in public support of child care as an income enhancing strategy for very low income parents, especially those receiving welfare assistance. Yet this is the group that we have the least information about since few are employed and use child care and national data on child care arrangements is usually not reported by income (e.g. O'Connell and Bachu, 1987).

Evaluations of many of the state welfare to work demonstration projects identify provision of child care support services as critical to the participants success in the labor market. But there are no published detailed studies of program participants' child care arrangements and their cost.

However a couple of studies have been conducted of AFDC recipients who are working. The first is a small study (only 50 families) derived from a module of the SIPP survey. Its major findings were that these working welfare parents use a large percentage of relatives (58%) for child care; they pay less often for child care and when they do pay they pay considerably less for child care (Brush, 1987).

The second study sponsored by the Urban Institute (and funded by Rockefeller Foundation) focussed on the type, costs, stability and satisfaction with child care arrangements made by AFDC mothers over a 14 month period. This study conducted two sets of in-person interviews with 554 mothers with children under age 10 randomly drawn from welfare rolls in Boston, Charlotte and Denver in 1983. The mothers were asked in detail about the criteria they used to rate quality of, and satisfaction with, different types of arrangements. (Sonenstein and Wolf, 1988)

Some of the issues of concern in these programs include how much and what types of child care assistance and subsidy do the program participants need and prefer? Do subsidies have to be tied to licensed care? Should the programs encourage and reimburse relative care?

Mathematica Policy Research, Inc. (MSR) is completing an evaluation of an ambitious multi-site demonstration program funded by the Rockefeller Foundation, the Minority Female Single Parent Demonstration program (MFSP). The first process report from this evaluation sheds some light on child care services needed to help low income minority parents enter the labor force successfully (Hershey, 1988). Four community based organizations in different urban communities provided three types of child care assistance to the clients enrolled in their employment and training programs: consumer education, assistance with arranging child care and provision of a subsidy or direct care.

The major lesson from these demonstrations was how difficult it was to deliver child care assistance to this population. Clients needed a great deal of help making the child care arrangements necessary before they could enter the training program although between one-third to one-half did *not* use available program subsidies for child care. When subsidies were needed they were most effective when provided continuously, and were portable i.e. not tied to particular providers of care. A major unmet need was for sick child care, as children's illness was the most common reason for the mothers to be absent from the program.

MATHEMATICA'S URBAN CHILD CARE SURVEY

Purpose of the Survey

The study, entitled Survey of Child Care Supply and Needs, is part of a 6 year demonstration program commissioned by the Department of Health and Human Services to train teen mothers for the work force (Teen Parent Demonstration Program). With the realization that these young mothers would need child care before they could work or receive training in 1986, HHS commissioned Mathematica to examine the child care market that these mothers would face.

No national data on the nature of the supply and demand for child care has been collected since 1979. The Mathematica study aims to shed some light on the market for child care, especially the market faced by low income families in urban communities. The market for low income households is particularly crucial since more welfare mothers will be entering the workforce as a

result of the recently passed welfare reform legislation which requires mothers with children over the age of 3 to either be in training or be working, and requires adolescent mothers to complete high school.

How, Where, When

The three areas surveyed for the study were: Camden and Newark, New Jersey, and South Chicago. The sites were chosen because they are areas where the Teen Parent Demonstration is taking place. The study was undertaken in the spring and summer of 1988 in each of the three demonstration sites. A sample, representative of the population as a whole in terms of income and family structure, was selected by the random digit dial technique. Through telephone interviews, 989 working mothers with preschool children were asked questions about their child care arrangements. (Mothers with children in preschool who did not work were not represented in the study.) The survey also included all *paid* providers of child care (including relatives). Surveyed were 167 child care centers, 294 unregulated family day care centers, and 160 regulated family day care providers.

Since the study was particularly interested in the child care market facing low income households, telephone exchanges in low income areas were used to try to over-sample low income families. Coordinators of the study note that finding low income families who use child care is difficult because child care so that mothers can work is often not used by this community (7.5 % of identified child care users are on AFDC and 16% had incomes less than 150% of the poverty line).

Preliminary Findings

Selected preliminary findings from this study can be broken down into factors affecting providers and factors affecting consumers. Many of the findings for these three urban areas were consistent with national studies for child care, such as distribution of types of care and costs of care. However, other findings were more surprising.

Consumers. Families use a variety of child care arrangements. Roughly half of the children are cared for by relatives (fathers are included in this definition). The other half are evenly divided between family day care and center-based care.

- On average families paid \$50 per week or 10 percent of a family's income, 25 percent of a mother's earnings.
- One interesting finding is that the price of center-based care is roughly the same as family day care. Both types of care have their advantages and disadvantages. Centers provide care for approximately 50 hours per week while family day care centers provide for 40 hours or less. But family day care is much more likely to provide flexible hours like evening or weekend care.
- Two-thirds of the mothers of preschool age children who paid for their care said they plan to take an income tax credit for their child's main child care arrangement.
- Decisions about child care providers are made informally. Most families find their provider through friends or relatives. The most common reasons mothers gave for selecting their child's current arrangement were quality, location, and price, *in that order*. Consumers tend to prefer family day care for younger children, while 2-5 years olds are more often in center based care.

- Having a sick child is a problem if you use center-based care. The majority of centers surveyed don't allow sick children, even though state law requires that they have a isolation room. Family day care providers are more willing to take a sick child and will administer medicine. But they do not keep records on names of the child's doctor, hospital, etc.

The majority of child care consumers reported satisfaction with their child care arrangements. However, when asked "if all types of care were available to you free of charge would you switch and to what type of program would you switch?" Twenty five percent to 50% mothers with children age 1 to 2 years said they would like to switch to a center-based program with an educational component so that their children would learn more. Forty five to 50% of mothers of 3 to 5 year olds, and 25% of parents of infants said they would like an educational component. Education seem to represent quality to most respondents.

Providers. There are 3 types of providers that were included in the survey: relatives (if they were paid), family day care providers, and center-based providers.

- Centers are operating at capacity. Three days is the average length of time it takes for a center to fill a vacancy. Center-based infant care is very limited.
- The survey found a large unused capacity among family day care providers who reported that they could accept nearly double the number of children they presently cared for.
- Paid family day care providers, and to a large extent centers, get customers through an informal system. They do not advertise their services or actively recruit. Child care centers rely on waiting lists to fill slots.
- Centers complain that late payment is the biggest problem facing them (75 percent) along with late pick-ups (50 percent). Family day care providers complain of late payments and reported that their own children resented the other children in their care, and that they found they had other things to do while caring for the children.
- Insurance was found to be not as large a problem as it is generally believed to be. Centers reported that obtaining insurance was not a problem but that in recent years the cost had increased and the coverage decreased causing them to raise their fees. Only half of family day care providers reported being covered by liability insurance, those that did have it did not have difficulty obtaining it.
- The majority of the centers participate in the USDA child care food program, while only 5 percent of family day care providers take advantage of it.
- In general the survey found the child-staff ratios exceeded state standards. The center's averaged a ratio of 6:1, while family day care providers on average had only 2 children.

Lack of information was seen as the biggest problem facing both consumers and providers especially with regard to family day care. Consumers rely on friends and relatives for information about child care. Centers and family day care providers use primarily informal methods of filling vacancies, suggesting that well-developed information and referral services could play a role in matching consumers with providers.

The telephone survey was targeted toward working mothers, but when in the initial screening calls interviewers found a household where a mother was not working she was asked if child care was a barrier to her entrance, or return, to the workforce. One third of the respondents said it was. The respondents had reasonable expectations of what they would need to pay for child care, suggesting

that either a shortage of supply, lack of information about where providers were or other factors were the problem rather than price.

The report on the Survey of Child Care Supply and Needs will be available in late February through Mathematica Policy Research, Inc.

CURRENT AND FUTURE PROBLEMS IN THE CHILD CARE MARKET

This review of national studies and the preliminary findings from the Mathematica urban survey and demonstration evaluations suggests while there may be no evidence of a national shortage of child care the following problems need further examination and discussion about whether and how they need to be addressed by federal action. (The issue of quality will be addressed in the next seminar.)

1. Information gaps and costs

The child care market is highly disorganized and decentralized making the search for child care a costly, time consuming and often frustrating one. There is some evidence, for example, that the family day care market is underutilized. These costs of search may prevent families from finding the type and quality they would prefer even when it exists at a price they are willing to pay.

2. Preferences and Choices

Local studies suggest that there are often serious shortages of particular types of care in certain communities that constrain consumer choices. Even if information was readily available parents would still not be able to meet their needs or preferences except at prices that are unacceptably high. For example, some studies, and field experience, suggest there are definite shortages of infant and toddler care (an area of fast rising demand); of child care services that will take children when they are sick; of care for special needs children (e.g. handicapped); and of child care available at irregular hours (e.g. evenings and weekends).

3. Affordability

As noted above the costs of paid care for poor and low income families are very high as a proportion of their family income and help to maintain the high rates of poverty and dependency of families with young children. In contrast, the rationale for subsidizing middle and higher income families would appear to rest on social goals of achieving greater gender or generational equity rather than economic goals of improving market effectiveness.

4. Data gaps

National data on supply and demand are, with modest exceptions, over ten years old. New national studies are being undertaken and will produce results by mid-1990s (See 1. and 5. below). And ongoing studies of the child care component of various state and local welfare reform demonstration will help implementation of the Family Support Act (see 3., 4. and 7. below). How to measure quality and child care's effects on children and their families are major areas that need development (to be discussed in the next report). Also there is a paucity of studies on relative care, especially unpaid care.

Implications for Public Child Care Policy

Public policies influence the demand for, and supply of, child care in various ways: 1) by affecting families' ability to pay for child care through child care fringe benefits, vouchers, tax credits or other subsidies and 2) by affecting the price of child care through direct and indirect subsidies to providers, raising labor costs through regulation of child/staff ratios etc.

The challenge for federal policy development is to be clear about the rationale, goals and likely effects of such intervention in the market. In addition policymakers need to recognize that any such assistance to consumers and/or providers of child care must effectively be paid for by other groups in society.

SUMMARY OF RESEARCH IN PROGRESS

We list here selected major research studies collecting new information about supply and demand aspects of the child care market that are currently in progress. The studies are listed under their major funder for the most part.

U.S. Department Health and Human Services

The Office of the Assistant Secretary for Planning and Evaluation, (ASPE) Social Services Policy in 1988 issued a compendium of child care research and demonstration programs sponsored by HHS from which these entries are taken. (See McGroder, 1988)

1. National Child Care Consumer Survey, 1989. The Urban Institute is conducting a nationally representative telephone survey of parents in households with children under age 13, to be supplemented by interviews with a subsample of child care providers identified by, and linked with, the parents in the national survey focusing especially on family day care homes (licensed and unlicensed).

The study is funded by the Administration for Children, Youth and Families, sponsored by the National Association for the Education of Young Children, and will be completed in March 1991. Contact: Sandra Hofferth Ph. D. 857-8617.

2. Panel on Child Care Policy. The Child Development and Public Policy Committee of the National Academy of Sciences has established an interdisciplinary panel of 15 experts whose broad mission is to review and synthesize the research on a wide variety of child care issues; identify relevant policy and program options and assess their likely costs and benefits; and identify gaps in existing knowledge; and recommend future policy directions.

The study is funded by the Office of Human Development Services and the final report will be submitted in the summer of 1989. Contact: Cheryl Hayes, (202) 334-3033.

3. Survey of Child Care Supply and Needs. Mathematica Policy Research, Inc. is conducting a survey of the supply and demand for child day care in three urban communities. Its primary purpose is to learn about the support services needed to reduce welfare dependency. (See description on page 7 above.)

The study is funded by ASPE and the final report will be available in March 1989. Contact: Rebecca Maynard Ph.D. (609) 275-2390.

4. Day Care and Self-Sufficiency: Choices of AFDC Mothers. This study examines the relationship between child care and self sufficiency under two policy scenarios 1) when basic (perhaps minimal) public investments go into day care for welfare recipients and 2) when ample day care resources are made available to them. The study will use two data bases initially developed from two Urban Institute studies: the Child Care and Self Sufficiency study and the Massachusetts ET Choice Program Evaluation.

The study is funded by ASPE/HHS. Report available April 1989. Contact: Freya Sonenstein, Heller School, Brandeis University (617) 736-3870 or Doug Wolf, Urban Institute (202) 857-8548.

U.S. Department of Education

5. Profile of Child Care Settings Study. Mathematica Policy Research Inc. in collaboration with The Urban Institute are conducting telephone interviews with a nationally representative sample of child care centers, early education and preschool programs and regulated family day care providers. The study will examine issues of quantity, quality, cost, and impact of regulations.

The study is funded by the Office of Planning, Budget and Evaluation, Dept. of Education. Contact: Ellen Kisker Ph.D. (609) 275-2379.

U.S. Department of Labor

6. Panel on Employer Policies and Working Families. The Committee on Women's Employment and Related Social Issues, National Academy of Sciences has established an interdisciplinary panel of 13 experts to conduct a review of research, synthesis and evaluation of employer policies and working parents. This will include an examination of the effects of employees' family circumstances and responsibilities (child care and elder care) upon their work availability, commitment and performance.

The study is funded by the Women's Bureau, DOL. Contact: Brigid O'Farrell (202) 334-3590.

Rockefeller Foundation

7. Evaluation of the Minority Female Single Parent Demonstration Program. Mathematica Policy Research Inc. is conducting a broad comprehensive evaluation of this training and employment program (described on page 7). The study includes a focus on child care support services and a specific study of the characteristics of child care providers and their costs (formal child care centers and licensed family day care providers). A variety of reports will be made available from this study throughout 1989. Contact: John Burghardt (609) 275-2390.

National Governor's Association

8. Survey of Child Care in the States. The National Governor's Association is launching an ambitious multiphase study of the availability of child care in the states. It aims to provide a complete picture of the status of child care provision with respect to licensing, standards, regulation, liability, group size, slots by age of child etc. Phase 1 consists of a survey of state agencies in all 50 states. An interim report will be published in August 1989. Initial funding is provided by American Express. Phase II will survey a sample of counties in 16 states in which human services are county administered. Phase III will survey a random sample of private employers in all 50 states. (Funding is being sought for phases II and III.)

Contact: Lynne Fender (202) 624-7722.

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