

TESTIMONY

THE ECONOMIC REALITIES OF CHILDCARE

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I am Heidi Hartmann, Director of the Institute for Women's Policy Research, a non-profit research center located in Washington, DC. An economist by training, I am also a Professor and Director of Women's Studies at Rutgers, the State University of New Jersey. I am pleased to be here today to share with you some of the Institute's research findings on the economic realities of our present child care arrangements. Our economic analysis of the costs and benefits of investing in children and of the present market in childcare services suggests that public subsidies for childcare and public regulation of childcare providers are warranted for several reasons:

- o to improve the operation of childcare markets;
- o to increase the quality of childcare;
- o to reduce the burden of childcare costs on parents and help families achieve economic security; and
- o to reap increased long-term benefits from increased investment in children.

In addition, because labor shortage is expected in the United States by the year 2000, all policies that assist parents in combining work with family care, including encouraging the development of childcare services, will help to ensure the availability of workers needed for future economic growth.

Let's look first at the economics of our current child care arrangements. The current market for childcare consists of a diverse set of childcare providers, family home providers--usually an individual woman taking several children into her own home; babysitters who work in the employer's home; child care

centers, usually serving 10 or more children in a facility set aside for childcare purposes--these are run by proprietary for-profit businesses, not-for-profit organizations, or public agencies; and nursery schools and pre-kindergardens, which may also be public, private for-profit, or non-profit. While these types of care generally involve a money transaction, the child care market also has an informal sector where childcare is shared among friends and family, exchanged, or bartered for in-kind services. In nearly all states there is some regulation of daycare centers, and in many of family home providers. There is federal subsidy of child care services through the child care tax credit in the federal personal income tax and through specific programs, such as Title XX and Headstart. In virtually all states, there is some state subsidy as well. In all states, private groups, such as churches, also subsidize childcare. In most states, there is some referral or information service about childcare availability, even if only on the local level. From this array of possibilities, with the incentives offered by the current subsidy structure, and constrained by their incomes and available information, parents choose the types of childcare they will use.

What do parents choose? Data from the 1984-85 Survey of Income and Program Participation (SIPP), a new data set containing information from over 15,000 households now available from the Census Bureau, indicates that there are about 8 million children under 5 who have working mothers. Nearly a quarter of

these children are in group facilities, daycare centers, preschools, and nursery schools. Slightly fewer than one third of them are in their own homes. There they are largely taken care of by their own relatives, especially their fathers or grandparents; a few have babysitters. More than a third of the children of working mothers are being cared for in someone else's home, usually a nonrelative. For those who are keeping track, the missing 1/12th are cared for by mothers while they are actually on the job. Between 1982 and 1984-85, the proportion of children using organized care increased substantially from 17 percent to the nearly 25 percent I mentioned. The increase has been steady since the 1960's and '70's. More and more families are using organized child care centers.

Of the 8 million children who are under 5 and have working moms, nearly two thirds have mothers who work full-time. Mothers who work full-time use more organized childcare than other mothers, simply because the more hours of care a mother needs the less able she is to rely on relatives and friends and other informal situations. Also, other things being equal, mothers who are black, single, well-educated, or in higher-level jobs are more likely to use organized child care facilities.

There is also a growing tendency to use organized childcare whether or not the mother works outside the home. Fulltime at-home mothers also use group childcare, such as nursery schools and pre-kindergardens. Presumably this reflects a growing



consensus that organized group social and educational experience is good for children at an early age.

What are parents paying for the childcare they choose? About two-thirds of those who use childcare, according to the Census Bureau, reported paying other people for it. They paid an average of \$38 per week in 1984-85; more than a quarter paid more than \$50 per week. Excluding care by relatives, the median weekly payment was \$41, with one-third paying more than \$50 per week. On an annual basis, the median childcare payment is approximately \$2,000 per child, with one-third paying \$3,000 per child (on average). There is substantial variance in the cost of childcare. For example, family day care homes cost less on average than centers.

The Census Bureau's SIPP data indicate that those who are more likely to have to pay for child care include those who work fulltime and those who have young children. Parents are simply less able to get free child care if they need alot of child care or care for very young children. And as mentioned, mothers who have more education and higher level jobs, and presumably are paid more, are more likely to use organized group care. Thus, those who need substantial amounts of care and can afford it use center-based care. Those who can afford to pay more are less likely to use relatives; according to 1977 data from the Census Bureau, those with higher family incomes use relatives less than half as often as those with lower family incomes (there is a

clear association in the data between higher incomes and less use of relatives for childcare).

In the case of the elderly, most of us would tend to interpret such findings as indicating that elderly people don't want to depend on their families; they want to be independent from their families--and are when they can afford it. Yet, with respect to childcare, many observers claim that families must want to use their relatives for child care. Based on the data presented here, I suspect they don't; parents would prefer to be able to meet such a major need without depending on their relatives. I base my conclusion on the economic concept of "revealed preferred." What those people who can afford alternatives choose is probably preferred by them to all the other choices they did not select. Group care in an organized center is the choice that is revealed preferred by those who can afford alternatives. Center care, however, is not used primarily by higher income families. According to 1977 Census Bureau data, 40 percent of those who used center care had family incomes below \$12,000 (in 1984 dollars, below \$20,000).

How do parents' expenditures for childcare compare with family incomes? In real terms, family incomes, though they have risen in the past few years, have not yet recovered to their 1978 levels. The \$2,000 median payment per child can be compared to a median income of approximately \$24,000 for families with children under six; if such families have only 1 child, they are paying nearly one-tenth of their incomes for childcare. Poorer families

pay higher percentages. Black women maintaining households alone (with and without children under six) have a median family income of \$9000; white women maintaining households alone, \$15,000. Black married couples have a median family income of \$23,000; white married couples, \$30,000 per year. (Those with children under six have even lower family income; for example, those women maintaining households alone, white and black, with at least one child under six have a median income of \$6,400, as compared to \$12,800 for all women-maintained families). Young parents are especially likely to have a difficult time paying for childcare. Forty percent of families that have children under six where the parent is under 25 are poor. Therefore, the average payment of \$2,000-3,000 per child is clearly out of reach of many families, especially poorer families who are already spending 90 percent of their income on income on housing and food. While these parents work to achieve economic security, the cost of childcare undermines their ability to do so.

What can we say about the quality of the care parents are getting for their money? Ellen Galinsky, from Bank Street College, has found that in one sample of employers at three different workplaces, about half of the parents said that they had difficulty finding quality child care. Two thirds say they had difficulty finding quality infant care. In other studies reviewed by Galinsky, from 17 to 57 percent of parents expressed dissatisfaction with some aspect or type of childcare they used. Substantial dissatisfaction and difficulty finding quality

childcare suggest parents are not entirely happy with the childcare they are able to select. That higher income parents buy more center care, and that parents who use center care are generally more satisfied than those who use other more informal forms, suggests if parents could afford what they wanted, they would move toward group care with organized social and educational programs.

Even in organized group care, however, what is the quality of care parents are likely to be getting for their children? In an Institute research study of the salaries of childcare workers, we found the average full-time child care worker earns \$5.34 per hour in 1986. This figure includes higher paid childcare workers, such as kindergarden, preschool, and Headstart teachers, who raise the average considerably. The average woman earns about \$8.00 per hour, and the average man, about \$12.00 per hour, for fulltime work. Thus the childcare worker earns far less than the average worker, and even far less than the average woman worker. But childcare workers have well above average education, 14.6 years of education compared to 12.2 years of education for the workforce as a whole. Childcare workers also can expect little or no increments in wages for increases in time on the job or increases in education.

What are the implications of these patterns of compensation? Low average wages coupled with above average education undoubtedly contributes to an unstable staffing situation in childcare. Workers who can earn much more elsewhere are not

going to stay in childcare, unless their wages are raised. Workers who are not rewarded for their longevity and learning will not stay. Turnover rates are high and apparently increasing. High turnover contributes to inadequate care, because of a lack of consistency from caretaker to caretaker, because childcare workers who are transient do not engage in training and do not have much opportunity to learn from experience. Those childcare institutions that have based their success on the seemingly inexhaustible supply of qualified women at low wages will find their labor supply drying up shortly, unless some action--such as raising wages--is taken soon.

Clearly childcare is expensive for families. Parents are paying substantial proportions of their income for childcare, poor families are paying even higher proportions. Just as clearly, improving the quality of child care requires improving the wages of childcare workers. This in turn might price many families out of the child care market.

Quality childcare is inherently expensive, especially when compared to the "free" childcare previously provided by women who stayed home. Raising children requires intensive effort. Raising an infant is a little like running a small business. Indeed, we call a small retail store a mom and pop store. Parents relentlessly self exploit, putting intense effort into their children, and putting in incredibly long hours when their children are very young. Why? In the past, because parents stood to benefit, in economic terms, when their children grew up.

Their children might support or care for their elderly parents; they might work in the family farm or business. Clearly, those reasons are no longer valid for most parents. For whatever reasons, many mothers are no longer able or willing to invest that "free" childcare in their children. They are pursuing a different route to economic security. Parents today don't really expect the individual children they raise to take care of them in their old age. But, as we also know, raising children well has enormous social benefits; those children who attended Headstart, for example, turned into better citizens when they became adults. At the societal level, the benefits of raising children are no longer privatized; they are clearly social. Yet the costs of raising children are still privatized today.

This economic analysis of the structure of childcare today suggests a number of reasons why public intervention is particularly appropriate to improve childcare services and the operation of childcare markets. Economists have noted several reasons for "market failure"--the failure of markets, through the forces of supply and demand to send the right signals, the signals that would lead to the proper quantity produced at the proper price. The market fails to send the right signals because of disjunctures between private costs and benefits and social costs and benefits. These reasons for market failure are clearly operating today in the case of childcare.

First, parents are faced with a vast array of childcare options, which are difficult to locate and evaluate.

The information costs facing the individual parent are high; it is simply too costly to get anything like adequate information. One study showed that mothers often choose the first provider that is close to home within the price range they believe they can afford. An individual parent also finds it difficult to evaluate the quality of potential providers--in terms of safety, health, and social and educational development; parents often choose a provider that has been used by someone they know--an inexpensive form of screening.

There are, however, enormous economies of scale in gathering and providing information, so that public support of information sharing is warranted--as with the federal and state funded employment information services, the benefits outweigh the costs. Better information helps the market operate more efficiently. Similarly, there are economies of scale in evaluation. As with most providers of consumer services that affect the life and health of the consumer (such as hospitals, restaurants, and food processors), inspecting facilities and evaluating them for health and safety is simply beyond the capability of any individual consumer. But all will benefit from the evaluation procedure and the standards set by a collective process. Public regulation is required when the market does not police itself because of the high private costs of such action.

Second, as we saw, many parents are faced with an inability to pay. Because childcare is a labor intensive activity, it is expensive, especially relative to the wages many workers earn. Some families are paying 20 to 30 percent of their income for childcare; many find and use lower quality childcare than they would like or than is socially beneficial. When parents cannot afford (or for other reasons do not invest in) the amount or quality of childcare that would benefit their children and society, public subsidies are warranted. This is a case of market failure because of externalities--the benefit of well-raised children falls on others besides the parents, yet the others are not called upon to pay for the benefit--unless there is public taxation and public subsidy.

Third, as we saw, the current structure of the childcare market delivers low quality childcare. Our main indicator of low quality is high turnover, stemming from the below average wages paid to workers who up til now have had above average education. The market delivers lower quality than is socially desirable for the two reasons just mentioned: market failure because of externalities and market failure because of economies of scale.

Childcare workers' salaries are held down by parents' inability (or unwillingness) to pay (enough to equal the social benefit). Low quality also results from the high cost to individual parents of enforcing quality standards. If as a matter of public policy, we desire to increase the quality of childcare provided, public investment is needed.



Finally, let me end with some comments about why public support ~~for public support~~ for childcare is growing. Most basically, childrearing and the need for childcare services beyond the family are becoming more universal.

First, a point that hardly needs reiterating is the increase in women's labor force participation--since more women are working outside the home, more families need childcare services.

Second, and less well recognized, the childbearing experience is becoming more universal and more similar from a demographic viewpoint. Most women now have a child before they complete their childbearing years, and most have only one or two. There are very few large families; there are very few families who do not have any children. (Relative to 1950, more women who had completed their childbearing years by 1980, had children and more had only one or two children.) Women are therefore also condensing the period of their lives when they have young children to only a few years.

This universality of experience suggests a life-cycle model as a basis for thinking about the social provision of child care. Social security is a well-known program based on the life-cycle model; each person expects to go through the same life-cycle and to live beyond retirement age. When we're working we contribute to social security to pay for our retirement; younger workers also agree to pay for older workers. A similar program could provide assistance to parents when they have young children; they themselves would contribute to the costs over

time, and at any one point in time the costs would be distributed across the entire adult population.

Whether through the general income tax or another mechanism, public investment in childcare is needed, because current market structures do not adequately respond to the signals of public benefit.

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SUPPLEMENTARY STATEMENT BY  
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In testimony before this Subcommittee on April 21, 1988, both Robert Rector and Phyllis Shlafly stated that the ABC bill (HR 3660), in supporting child care, discriminates against "traditional" families (families who do not use child care because they have a mother at home). They further stated that families with both parents working are better off than those with only one in the labor market, so that legislation that supports child care represents a "reverse Robin Hood" policy because it would tax the poor (the traditional families) and give to the rich (the dual earning parents). They also suggested that federal income tax policy, especially the child care tax credit, discriminates against "traditional" families. Mrs. Shlafly further stated that it is only the wives in better-off families that work in the labor market.

How valid are these claims?

**Are mother-at-home families discriminated  
against in federal policy?**

Any claim that supporting child care "discriminates" against traditional families has to be examined in the context of federal policy more generally. Although Shlafly, Rector, and others claim the tax system discriminates against mother-at-home families, actually the opposite is true. In work by the Urban Institute and others, the federal income tax system and the

In the income tax system, the income splitting provision benefits traditional families (or any family in which one spouse does not work for money). In most European countries, there is no income splitting allowed. The tax rate for two-earner couples was shown to be higher than for single earner couples, and higher than for single people, so much so that it would have paid many two-earner couples to divorce. Because of this inequity, the special deduction for married couples in which both work was instituted. The child care tax credit also redressed the inequities these couples faced. As a result of the recent tax reform, the federal income tax system now benefits traditional families even more. The increase in the allowance for dependents (the personal exemption) to \$2,000 benefits the traditional family more, because women who stay home have more children than those who work in the labor market. Tax reform also eliminated the special deduction for the dual-working married couples worth \$6 billion in 1988. The revenue losses caused by increasing the personal exemption to \$2,000 average \$27 billion yearly (U.S. Congress, Joint Committee on Taxation). These figures are larger than the revenue losses that result from the child care tax credit (\$3.5 billion in 1988). Recent estimates of the revenue lost because of income splitting are unavailable, but are surely relatively large.

It should also be remembered that working wives are paying income taxes--the child care credit is a return to them of some of the taxes they pay because of the costs of working outside the home and because the tax system financially discourages rather than encourages their employment. The child care tax credit makes the system a little less discouraging.

In social security, the system provides large benefits to a married person with a dependent spouse. Couples in which both have worked all their lives and single people pay the benefits for those dependents. For example, married men do not pay more than single men with the same income, though they (and their wives) will receive much more in benefits. Couples in which both have worked most of their adult lives do not usually receive more in social security benefits than those in which only one member worked, though they have paid more in social security taxes.

Evaluating the impact of any one provision can only be done in the context of the whole. On the whole, are traditional families suffering grave injustices as a result of federal tax policy? The clear answer is no. They benefit in many ways. Those suffering the injustices are still the working couples.

As the Congress knows, it is difficult to design broad social policies--such as income taxes and social security--in a way that is fair to many different types of families and to individuals in a variety of situations.

**Are two-worker families better off  
than mother-at-home families?**

On average, yes. When the mother works for money, her family benefits financially. The mother, statistics on housework show, is doing two jobs--housework and wage work--and her family benefits from her extra work.

The wage-working mother, however, has expenses of working outside the home, that the at-home mother does not have, such as commuting, which for comparison purposes should be deducted from her income. Also, of course, the at-home mother provides more services for her family from which her family directly benefits. For comparison purposes, the value of her services should be calculated and added to her family income. If these deductions and additions could be made, the average incomes of the two types of families would be closer. The true economic status of the two types of families is difficult to discern.

Yet, because so many wives and mothers are entering the labor market, common sense suggests that they feel working outside the home is worth it--they and their families probably gain more than they lose. Many families seem to feel today that it takes two adult earners to achieve the standard of living they desire. Those families that could afford to have one parent at home to care for a child full-time, but who do not do so, are choosing the larger incomes that a second earning parent provides. In our society, they are free to make that choice, and they make it despite the fact that tax policy discourages it.

Of married couple families with children under 18, the majority now have two earners. As of 1986, in 66.6 percent of married couple families both the mother and father work in the labor market; in 27.2 percent, only the father works in the labor market; in 3.7 percent, only the mother does.

Not surprisingly families with two earning parents have higher incomes than those with only one earner:

**1986 MEAN FAMILY INCOME**

Married Couples with:	Earners	
	Father Only	Mother and Father
Children under 18	\$31,494	\$39,050
Children under 6	29,270	36,574

Source: U.S. Bureau of the Census, Unpublished Data.

Yet, most women work out of economic necessity.

**Are mothers in better-off families more likely to work outside the home?**

No. Except for families near the poverty level, women whose husbands have lower incomes are more likely to work outside the home. The more the husband earns the less likely the wife is to work outside the home:

Earnings of Husband	Percent of Wives with Earnings
less than \$15,000	65.9
\$15,000-\$19,999	72.3
\$20,000-\$24,999	71.7
\$25,000-\$29,999	71.1
\$30,000-\$34,999	68.8
\$35,000-\$49,999	63.5
\$50,000-\$74,999	59.3
\$75,000 or more	46.5

Source: U.S. Bureau of the Census, Money Income of Households, Families, and Persons in the United States: 1984. Current Population Reports, Series P-60, No. 151, Table 22, p.78.

**Most women work out of economic necessity.**

Not only do more women work in the paid labor force when their husbands' incomes are lower, wage-working wives contribute a higher proportion of family income for families at the lower end of the income distribution. The average wife contributes approximately 30 percent to her family's income, but wives of husbands who earn between \$10,000 and \$15,000 per year, contribute over 40 percent, and at very low incomes, wives contribute even more. Lower income families depend more on the wives' earnings than do families at the upper end.<sup>2</sup>

Thus while earning additional income is a choice for many women--in the sense that their husbands could afford to support them if they preferred, for many others--the vast majority--it is a clear economic necessity.

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<sup>2</sup> See Francine D. Blau and Marianne A. Ferber, Chapter 5 in The Economics of Women, Men, and Work, Prentice Hall, 1986, and U.S. Bureau of the Census, Money Income of Households, Families, and Persons in the United States: 1984, Current Population Reports, Series P-60, No. 151.

Families with young children are not as well off as parents with older children or families with no children.

Families with children under six are poorer than other families. These families therefore especially need to have two parents in the labor market to raise their standard of living. Young parents have an especially high incidence of poverty. As noted in my testimony, 40 percent of families that have children under six, where the parent is under 25, are poor.

As the family income data above show, children under six are poorer than other children. If their parents, mother and father or mother only, are already working outside the home, good quality, affordable child care can help them get a good start in life. Improving the child care these children now have is critical.

Does subsidizing child care amount to subsidizing higher income couples?

No. Robert Rector's testimony states that "over 80 percent of young children using day care come from affluent two-parent/two-earner couples." This statement is based on data from the May 1987 Census Bureau report, Who's Minding the Kids?, (Current Population Reports, Series P-70, No 9), which show that of those children under 5 years of age with wage working mothers 81.3 percent have mothers who are married with spouse present. Several points should be noted about this statement.

First, this is not that surprising; nearly 80 percent of children under 5 live with two parents and just about as many married mothers work as do single mothers.<sup>3</sup> Thus, those using child care will be about the same proportion.

Second, these data refer to all children using all types of child care (not only day-care, which usually connotes a particular type of child care, namely an organized group facility). Because single mothers are more likely to use child care centers than married mothers, less than 80 percent (78 percent) of those children using child care centers have two earning parents.

Third, no data in this publication report the use of child care by family income. In other words, Rector's statement that these children come from "affluent" families is not supported by

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<sup>3</sup> See the statistical appendix of The American Woman, 1987-88, ed. Sara E. Rix, Norton and Co., 1987.



data. He is basing his claim that they are affluent on the fact that, as noted above, families in which the wife works in the labor force have higher average family income.

Fourth, Rector also assumes that all those mothers who are "married, spouse present" have husbands who are working. This is not necessarily true. The Census Bureau found 6 million wives who earn more than their husbands, 4 million because the husbands were not employed full-time year-round, were ill, disabled, or retired.<sup>4</sup>

The tendency to label families with two earning parents "affluent" is growing. In the Executive Summary of Child Care: A Workforce Issue, the recently released Department of Labor study, the "74 percent of married working parents with children under 14 [who] have a family income of more than \$25,000," are, in the next sentence labeled "upper income." Upper income used to be a term that referred to the top 1/4, or perhaps the top 1/3 of the income distribution. It hardly makes sense to refer to the top 3/4 of an income distribution as "upper income." Yes, surely these families are better off than single parent families, but they are not on the average affluent, nor are the majority of them affluent.

Part of what is going on here is "money illusion." Inflation over the past 20 years has approximately tripled the average family money income. For some, \$25,000 in family income may sound like a lot. Certainly, the \$46,779 cited by Mrs. Shlafly as 115 percent of the median family income in Connecticut does. Certainly, these incomes sound like so much more than the amounts today's fifty year-olds had for their families in 1967, when they were (perhaps) young parents. But in 1967 dollars, \$45,000 amounts to less than \$15,000 and \$25,000 amounts to less than \$8000. Today, \$25,000 is less than the median income for all families and less than the average male worker earns working full-time year-round.

To lampoon this as a bill for yuppies is to play upon people's money illusion--what sounds like high family income today is simply not so. A bill that helps the bottom half of the income distribution, or even the bottom 57.5 percent (since the bill allows states to provide assistance to families with incomes up to 115 percent of the state's median family income) is not a yuppie bill.

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<sup>4</sup> Suzanne M. Bianchi, "Wives Who Earn More Than Their Husbands," Special Demographic Analyses, CDS-80-9, U.S. Bureau of the Census, 1983.