Child Care and Economic Development: Markets, Households and Public Policy

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Abstract

Child care is a critical community infrastructure important for economic development and family wellbeing. Increased economic interest is being focused on the role of child care in economic development. This requires attention to the structure of the sector, the nature of parental demand and the role of government policy. But it also requires attention to non-market household care. Examples from New York State are presented as context for a set of articles looking at these issues in the U.S. and Canada. The challenges and benefits of an economic development frame are discussed.

Introduction

Child care is now being recognized as a critical community infrastructure for economic development. Child care has traditionally been provided by households, but increasingly parents are turning to market forms of child care while they work. As market based forms of care have grown, increased economic development policy attention is being given to the child care sector. Across the United States and Canada, teams of economic development leaders have come together at the state and municipal level to measure the economic importance of the child care sector and identify economic development policy responses that could strengthen the quality, affordability and economic sustainability of child care businesses (Warner 2006). The American Planning Association's magazine, *Planning*, recently featured an article titled "Child Care: A

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Critical Community Infrastructure" (Warner 2007), which challenged community planners to incorporate planning for child care into their work.

The growing interest in the linkages between child care and economic development challenges us to consider the structure of supply in the child care sector itself, the nature of parental demand for care, the nature of the employment in general, and the links between market and household based care. While recognition of the economic development importance of child care opens new policy debates with new stakeholders, it also raises challenges in how we think about market care, home care, work and public policy regarding children and families. This special issue explores those economic development connections and the challenges they raise.

Setting the Context: Child Care in New York State

To set the challenges in context, I present a brief review of the child care challenges in New York State. A 2006 survey of economic developers and chamber of commerce leaders in New York State found:

• 83% agree that childcare should be a part of economic development policy.

• 82% recognize that a lack of affordable, quality, convenient child care reduces worker productivity.

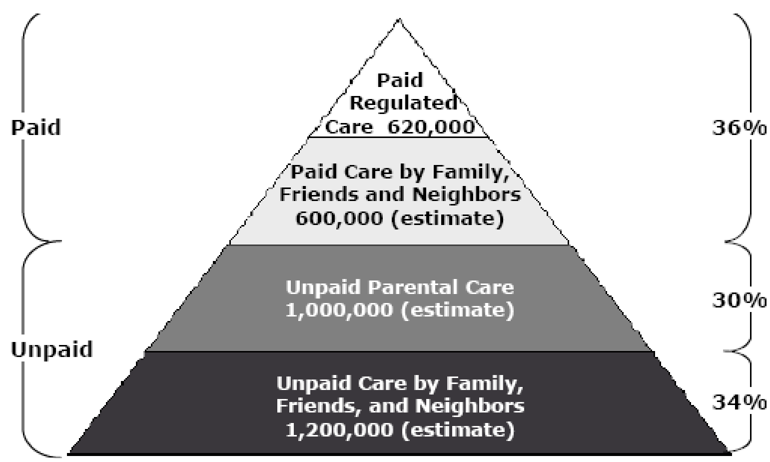
• 67% feel that businesses' ability to attract and retain workers is hurt by lack of quality child care.

• 58% acknowledge an inadequate supply of quality child care in their community (Cornell 2006a).

Given this interest, what do we know about the economic structure of the child care sector?

According to a 2004 study, the formal licensed child care sector in New York State is a $4.7 billion dollar industry (NYSCCCC 2004). It includes center care, nursery schools, Head Start, pre-kindergarten and family home care. These 22,000 child care businesses care for 620,000 children across the state and employ 119,000 workers. This child care serves 750,000 working parents who are estimated to earn $30 billion in annual wages. The importance of child care as an economic sector in its own right, and as a support infrastructure for parents is clearly significant. But it is also inadequate. The study estimates there are 3.4 million children in New York state whose parents work. But only 620,000 are in formal, licensed care. Where is the remainder?

Figure 1: The Structure of Child Care in New York State



Source: Cornell 2006b

Child care is a complex sector that includes formal regulated paid care, informal paid care, and informal unpaid care either from households or other relatives and friends. The child care market requires attention to more than the tip of the iceberg represented by paid, regulated care. There are 3.4 million children in the state who have working parents but only 36% (1.2 million children) are estimated to be in paid care (Cornell 2006b). With only 620,000 regulated spaces statewide, the other half of the children in paid care are in informal settings. The remaining 2.2 million children are not in market based care at all. Rather, they are cared for by unpaid family, friends or neighbors. Household, non-market care forms the base of the pyramid. (Figure 1).

As communities have recognized the importance of child care, many have built or expanded new child care centers only to find that slots remain unfilled. The average cost of care in a New York center is $9500 but the average wage in growing employment sectors is only $20,000. Thus it is no surprise so few parents can afford center based care.

The articles in this special issue explore the impact of new public subsidies for child care on the use of center care, growth in centers and employment of mothers. They also challenge us to begin to value the household non-market forms of care that are such a critical part of our economic foundation. Finally, the papers address the policy challenges and opportunities represented by this new economic development frame.

Subsidies, Child Care Supply and Parental Employment

Part of the increased interest in child care is stimulated by US welfare reform policy that requires mothers of young children to work. Because wage rates in low wage jobs are too low to cover the costs of child care, new child care subsidies compose a large part of the work force supports the Federal government has put in place as part of its welfare reform package. Child care benefits, health insurance, some transportation and job training subsidies were designed to "make work pay" even for low wage jobs. U.S. federal spending for child care subsidies now exceeds $5 billion (Davis and Jeffreys this issue). A similar amount is spent in Canada (Prentice, this issue). How has this subsidy expenditure affected employment of mothers, and the structure of the child care sector? The papers by Davis and Jefferys and by Covington explore these economic development effects.

The paper by Davis and Jefferys explores the kind of jobs child care subsidy recipients receive. Child care subsidies are not only a work support for parents, they also may increase the available labor force for employers – especially in low wage jobs which face labor shortages. Retail and service industries, health care, food service and temporary help are the sectors where child care subsidy recipients concentrate. Davis and Jeffrys sample 4 Minnesota counties (two urban, two rural) and look at child care subsidy and employment data to track wage rates, job tenure and promotions over time. They find that even with earnings growth, average family incomes were still below $20,000, just slightly above the poverty level for a family of three. However, those workers who moved into or stayed in the health care sector received higher average wages and experienced greater wage growth. They challenge that "policy makers have largely ignored the linkages between government funding of child care subsidies and meeting the present and future workforce needs of the local economy" and more attention should be given to training and placement in the health care field given the higher wages, better job security and economy-wide needs in this area.

The paper by Covington looks at the impact of child care subsidies on the supply side in terms of location of child care centers. Using data on 314 Metropolitan

Statistical Areas (MSA) she tracks changes in supply of center based care and residential location of parents with young children. Using economic census data from 1992 to 2002 she finds almost a 35 percent increase in the number of child care centers. To assess the level of spatial mismatch between child care demand and supply she calculates a dissimilarity index by zip code. Although spatial mismatch is highest for Black and Latino families, it dropped between the 1990 to 2000 decade. Covington attributes this to increased effective demand generated by the subsidy dollars which led to an increase in center supply in these areas.

One major concern with child care is the impact on children's human development. Especially for low income children, who are less likely to be in licensed care, quality is a serious concern. Head Start is a national program that provides quality child care for low income children. Conceived as a part day preschool program, the challenge has been to integrate Head Start with wrap around child care for working parents. The paper by Lim, Schilder and Chauncey looks at integrated Head Start/Child Care programs in Ohio and assesses the impact on parental employment. Not surprisingly, parents who are employed, in job training or in school are more likely to choose such partnership centers as they offer full day programs. However, the authors also find that partnership centers are more likely to provide job information as an additional program service beyond parent education and child development. They conclude that these programs contribute to parental self sufficiency and have a broader spillover effect on the community as a whole.

Beyond the Market – The Importance of Household Care

Most child care is provided by parents, not the market. According to the US Census, among children under age five, 24.3 percent were cared for in child care centers or nursery schools, 24.8 percent by relatives and another 17.2 percent by non-relatives (Johnson, 2005). Among families in poverty, children are more likely to be cared for by a relative (60 percent) rather than a child care center (14 percent) or family child care home (7 percent) (Johnson 2005). Affordability constraints explain some of these differences, but even for middle class children, it is not uncommon for families to put together a patchwork of arrangements that includes home, relative and market-based care.

The paper by Pratt challenges us to look at both market and non-market (household) forms of care in a comprehensive model. He notes that estimates of Gross Domestic Product (GDP) explicitly exclude values for non-market household production. This failure to account for household production has led to an underestimate of actual GDP and ignorance of the important role household care plays in supporting market forms of economic activity. Using newly released data from the American Time Use Survey he demonstrates how a regional economic model can be constrained by labor time to determine an economy-wide shadow price for the value of household care labor. Such analyses could help economists better understand the tradeoffs between market labor and household production – important not only to regional economic activity but also to child development and household well being.

Policy Prospects and Challenges

The paper by Prentice, looks at the business case for child care from a Canadian perspective. While efforts to measure the regional economic importance of child care and generate economic development policy responses have become common in the United States, in Canada only Manitoba has conducted such studies (Prentice and McCracken 2004). Nevertheless, Prentice argues that "economic arguments are now more widespread than earlier justificatory frames -- such as gender equality or work-family balance." By characterizing social policy spending as investment, decision-makers are reoriented from a focus on immediate costs towards a longer-range perspective of social return. She cautions, however, that "a focus on the-child-to-invest-in may well signal a moment of movement away from the concept of the child as subject of needs" and thus worthy of social welfare support as a human right.

In the U.S. economic development arguments have lead to a new focus on the supply side of the market to strengthen the child care sector – market data, business management training, access to finance, and inclusion in community planning and infrastructure policy (Warner et al 2004, Anderson 2005). These strategies have added new, powerful, business leaders' voices to the debate as outlined by Sabo in his short rejoinder to Prentice. Sabo shows how these arguments have expanded public perceptions of children as worthy of public investment. Ultimately economic development policy, and increasingly social welfare policy, must be pragmatic. As Sabo argues, dramatic shifts in U.S. public opinion in support of greater investment are motivated in large measure by the economic investment logic. Similarly in Canada, the Quebec $5/day child care and the national debate on increased investment (which survived a shift in party leadership) is based in part on the universal appeal of the economic investment logic. The papers by Davis and Jeffreys, Covington, and Lim, Schilder and Chauncey in this issue demonstrate that with an investment frame, powerful economic arguments can be made for increasing the supply, quality and affordability of child care.

However, to ultimately address the full range of care supports on which children depend, we must challenge the limits of the investment frame. It is clear that in the U.S. and to some extent in Canada too, the explicit link between child care and economic development – documented with new economic models – has made a major contribution in elevating the status of child care as a sector worthy of economic development attention. But the primary focus on the long term benefits of preschool, and the short term benefits of child care subsidies so low-income parents can work are the primary results of the child care as economic development frame. What is still lacking is increased attention and policy support to the non-market forms of care which form the majority of care a child receives. This is the caution Prentice raises and Pratt shows how to begin to address – in traditional economic terms (GDP).

Economic development arguments have made a strong case for increased public attention and investment in a previously ignored sector. But this logic needs to be complemented with a focus on human rights. In Canada, which also articulates policy goals of women's equality and children's citizenship, policies which recognize the need to support household care (such as paid parental leave) have been put in place. In the US, by contrast, explicit policies to support parental care are lagging. Giving greater attention to household care will be the next economic development challenge.

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Endnotes

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