Podcast Transcript for "Reassessing the Evidence on the Rising Cost of Child Care in the United States"

Featuring Christopher Herbst

Hosted by Dave Chancellor

May 2016

[Chancellor] Hello, you're listening to a May 2016 podcast from the Institute for Research on Poverty at the University of Wisconsin-Madison. I'm Dave Chancellor.

For this podcast, we're going to be talking with Chris Herbst, who's an associate professor in the School of Public Affairs at Arizona State University. I spoke with him in April of 2016 while he was in Madison visiting IRP and the La Follette School of Public Affairs.

Herbst has a large body of work exploring how people pay for childcare -- with much of it focused on child care subsidies. For this podcast, we'll be taking a look at an Institute for the Study of Labor discussion paper that Herbst wrote last year called, "The Rising Cost of Child Care in the United States: A Reassessment of the Evidence." When we first started talking, I asked him about the background for this paper and what led him to want to reassess the evidence on the cost of child care.

[Herbst] A lot of claims have been made over the past couple of years about this so called skyrocketing of families' child care expenses. And, my sense as I was reviewing the evidence on those claims was that in fact the evidence base was pretty thin. That, there wasn't a lot of empirical evidence to support the notion that childcare costs were increasing, never mind increasing rapidly. So that was sort of the first inkling that I should probably take a look at this more closely. The second intuition that I had that sort of warranted a deeper investigation was that the demand for child care as measured by mother's labor force participation rates has been stagnant over the past decade or so. So we know that mothers' labor force participation rates stopped growing around the early 2000s and have been flat and even declined somewhat since then. So I sort of used that nugget to think about well, why, in a world where demand for child care as measured by mothers' labor force participation rates, why in a world where mothers' labor force participation rates or the demand for childcare is stagnant, why would that sort of warrant claims about rising childcare costs?

[Chancellor] Professor Herbst says that, broadly speaking, he used two different kinds of data to look at the trends in U.S. childcare costs.

[Herbst] I started off with using a data set called the Survey of Income and Program Participation, which is a government funded survey and I used the portion of the survey that explored the child care expenses of families with children and the survey has been conducted periodically over the last couple of decades, so it's actually quite useful for tracking whether and to what extent families' child care expenses have changed over time. So one data source that I used was a survey of families and their child care expenses. Another set of data sources that I relied on measured the earnings and characteristics of child care workers with the idea being that because the child care industry is so labor intensive, the trend or sort of direction taken in child care workers' wages would tell us something about the direction taken in the market price of child care.

[Chancellor] The overall picture that Herbst finds, in his analysis of this data, is that for the typical family, child care expenses rose by about 14% between 1990 and 2011, but there is more to the story.

[Herbst] This is about half the rise documented in previous work. The difference between my finding and the results in previous work really has to do with the way child care expenses are measured but my finding suggests a rise that is not as steep, not nearly as steep as the finding in other papers. But, I think the devil's in the details here. What I see is that the expenses of low income families barely budged at all between 1990 and 2011. On the other hand, the child care expenses of their high income counterparts increased dramatically, by as much as 50% in some of my analyses. So that was an unexpected finding and in the paper I sort of played around with some hypotheses as to why there is this sort of bifurcation of expenses across low-income and high income families. I also find that earnings of child care workers, so this measure of the market price of child care increased modestly throughout the 1990s and then suddenly stopped growing around the early 2000s. And childcare worker's earnings had been stagnant since then. So that suggests to me the market price of child care likely increased throughout the 1990s, but probably hasn't changed much in at least a decade.

[Chancellor] The "bifurcation" in child care expenditures between low and high income parents that Herbst is talking about here is one of the reasons he decided to rethink how expenditures of the typical family are measured. The main numbers used in the conversations around the cost of childcare over the last couple of decades have come from a report issued periodically by the Census Bureau, called "Who's Minding the Kids?" The report uses the same Survey of Income and Program Participation data that Herbst uses, and is based on the mean or the average cost of childcare for families in the sample.

[Herbst] What I argue in the paper is that the mean is influenced by a small number of families who are increasingly spending incredibly large amounts on childcare so that the mean is increasingly a less relevant summary statistic for what the typical family is spending. So, the way to sort of fix that is to use a different summary statistic which I argue is better. And that is the median, which is not influenced by large deviations at both ends from what the typical family is spending on child care. When that measure is used, it reveals a much smaller rise in childcare for the typical family over the past couple of decades.

[Chancellor] Herbst sees a couple of key areas that may be driving the divergence in childcare expenses between high and low income families.

[Herbst] One hypothesis that I have is that the enormous investments in childcare subsidies and other forms of publicly provided early care and education have really been quite effective at keeping the child care costs down, the childcare costs of low income families and has sort of prevented the rise that would have occurred in the absence of these programs. I think another potential explanation for the divergence in costs is that to the extent that what you're paying for childcare is an indication of the quality of care you're purchasing. It could be the case that over time low income and high income families are diverging increasingly with respect to the quality of care they're buying. So higher income families are purchasing care that is of increasingly high quality. Low income families today are probably purchasing quality that is of about the same level as what they were able to purchase a couple of decades ago. And so from a public policy perspective, I think that that trend, that widening quality gap if you will, is troubling.

[Chancellor] In terms of the quality gap and flat trends in childcare costs for low income families, Herbst suggests a couple of interpretations.

[Herbst] Number one, the subsidy system is doing its job neutralizing childcare costs and if that's the case we should certainly continue to do that and I would argue probably, ramp up the robustness with which we do that. On the other hand, if the stagnation in costs among low income families is suggestive of stagnation in the amount of quality that they're purchasing, then I think a policy response of cost reduction and increased quality incentives needs to be sort of caked into the childcare subsidy system. The subsidy system today is really sort of focused on cost reduction and incentivizing maternal employment. I would argue for sort of a shift, or at least sort of an equal emphasis placed on cost reduction and incentivizing quality. For example, one way to do that is to provide increasingly large benefits to families that purchase quality of higher and higher levels.

[Chancellor] As Professor Herbst sees it, the cost of child care isn't the biggest issue in the market now. Instead, he says that the quality of childcare is actually the more challenging issue that people are dealing with.

[Herbst] In particular, the quality of services rendered by the U.S. child care market, is sort of low to mediocre at best. In my view, an explanation for the low quality rendered by the market is an issue that's referred to as information asymmetry. Basically the theory for that goes as following, that purchasing child care is a very difficult process for parents to engage in. Child care as a product is difficult for parents to evaluate and one of the dimensions of that product, quality, quality is probably the most important thing and probably the most difficult thing to evaluate. And so, what happens when parents are sort of turned loose as sort of ill-informed consumers in the market, they purchase too much low quality care and too little high quality care and as a result, for their part, providers don't have an incentive to provide high quality care. And what that tends to result in is sort of the high quality providers being sort of nudged out of the market. The only providers that can survive in the market are low or average quality providers. The way to kind of ameliorate that issue is to engage in really aggressive consumer education campaigns. There's some of that built into various nooks and crannies of our childcare policy landscape, but I think we could be doing a lot better job, a much better job, of sort of informing parents regarding two issues -- the value of purchasing high quality childcare for their children and educating parents around how to distinguish between low and high quality providers, so that they're armed with this sort of information as they head into the market and search for a childcare provider.

[Chancellor] Since part of Herbst's analysis comes from looking at the wages of childcare workers, he says another dimension of this discussion that needs attention is the low pay childcare workers receive -- something that he and many others who study child care lament.
[Herbst] And it actually goes beyond that, they aren't just poorly paid, but childcare workers haven't seen a raise in over a decade and there are various policy proposals being floated to increase the earnings, increase the wages of childcare workers. I actually think that one of the most powerful long term fixes to the sort of low and not-increasing wages of childcare workers is to fix this information asymmetry problem. So if we turn parents loose in the childcare market as better informed consumers they're going to go out and demand higher quality child care. What that means for childcare providers is that they will be free to hire more highly qualified workers and then pay them more and parents will sort of understand why they're paying a little bit more today as compared to yesterday because they're paying for a higher quality product and they'll accept that and they'll accept that that's important and be willing to pay for it.

[Chancellor] Herbst says that if costs rise because the market quality of child care is improving, public policy efforts will need to focus on enhancing subsides so parents from across the income spectrum can invest in the higher quality care.

[Herbst] I think the level of quality child care that parents purchase is probably one of the most important decisions that parents make. Something in the neighborhood of 2/3rds of American preschool age children regularly attend some form of nonparental child care and among those who attend, regularly attend for around 30 to 40 hours per week. So this is a lot of time in nonparental care during a set of years that's quite critical for child development, so quality is central to the question of child development. And the effect of quality is important in both directions so, when children, particularly low income children are exposed to high quality care, they benefit. And when low income kids are exposed to low quality care, they suffer, which in my view, warrants a close look at this and I think has important policy implications.

[Chancellor] Thanks to Chris Herbst for sharing his work with us. You’ve been listening to a podcast from the Institute for Research on Poverty.