

The Cost and Quality of Child Care in the U.S.: Problems and Policy Solutions

Chris M. Herbst
School of Public Affairs
Arizona State University
@ChrisMHerbst

October 23, 2018

Outline of My Comments

- Three topics
 - Trends in the cost of child care in the U.S.
 - State of knowledge regarding child care quality
 - Policies to improve quality
- Main takeaways
 - For many families, costs have risen only modestly
 - Quality tends to be mediocre at best, and has shown few signs of improvement over the past few decades
 - Severe information problems exist
 - Policies such as Quality Rating and Improvement Systems (QRIS) seem promising for increasing quality

Families' Child Care Expenses: 1990 vs. 2011

Median weekly child care expenditures per hour of maternal work

Characteristic	1990	2011	% Change
All families	\$2.27	\$2.59	14%
Families with children ages 0-5	\$2.67	\$3.45	29%
Families with children ages 6-14	\$1.34	\$1.24	-8%

Source: Herbst, C.M. (2018). The Rising Cost of Child Care in the U.S.: A Reassessment of the Evidence. *Economics of Education Review*, 64, 13-30.

Families' Child Care Expenses: 1990 vs. 2011

Median weekly child care expenditures per hour of maternal work: **families with children ages 0 to 5**

Characteristic	1990	2011	% Change
Low-education mothers	\$2.29	\$2.49	9%
High-education mothers	\$2.99	\$3.73	25%
Low-income families	\$2.23	\$2.46	10%
Middle-income families	\$2.45	\$2.90	29%
High-income families	\$3.34	\$4.93	48%
Center care; low-education mothers	\$2.53	\$2.07	-18%
Center care; high-education mothers	\$2.94	\$3.62	23%

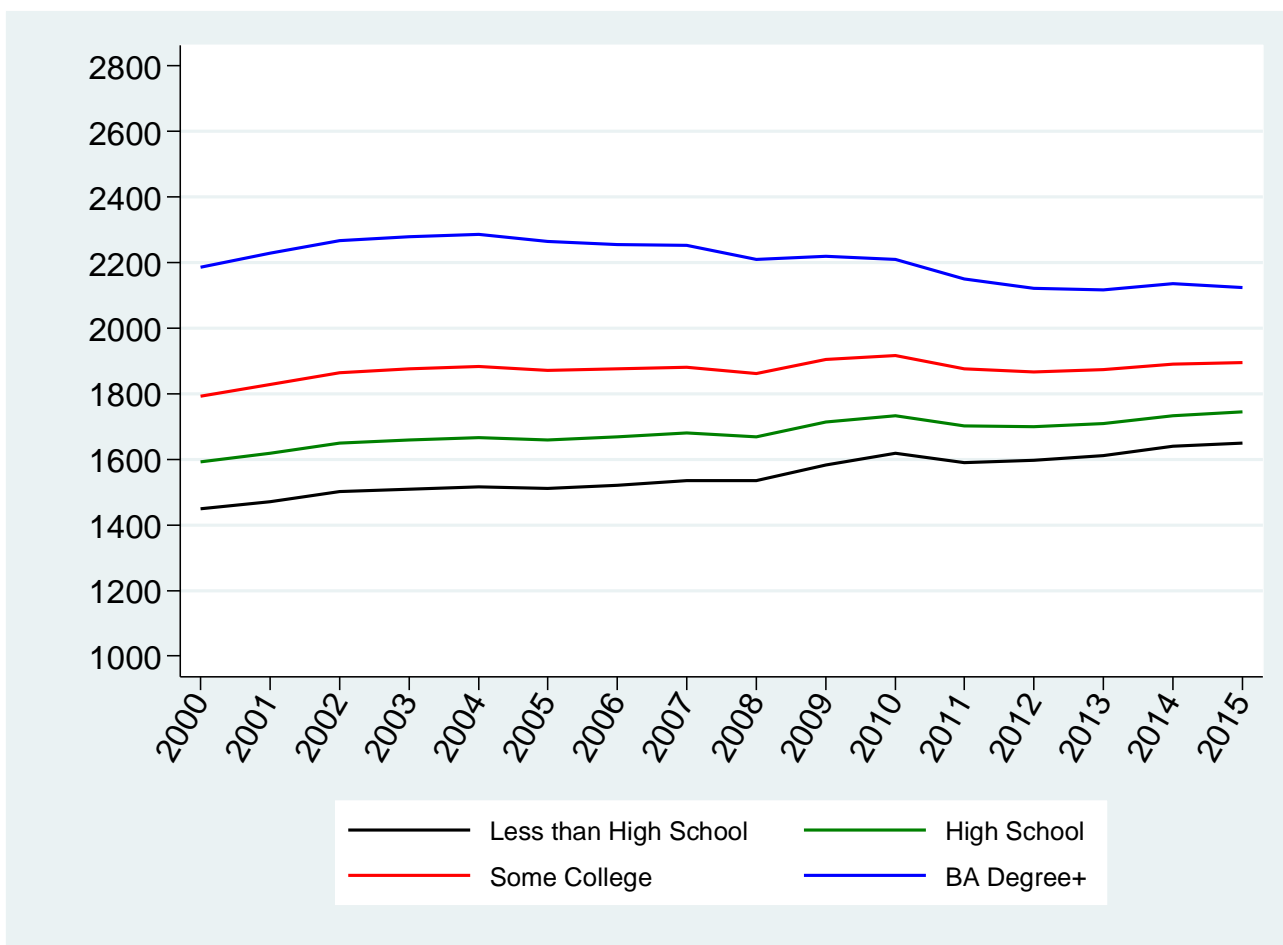
Source: Herbst, C.M. (2018). The Rising Cost of Child Care in the U.S.: A Reassessment of the Evidence. *Economics of Education Review*, 64, 13-30.

What's Happening?

- Why have child care expenses increased only modestly for many families?
- Fewer families are actually paying for child care
 - Percent paying in 1990: 37%
 - Percent paying in 2011: 27%
- Public investments in heavily subsidized early childhood programs may help to defray the daycare costs of low-income families
- Demand for child care has been stagnant for over a decade
 - Mothers' labor force participation rate
 - Child care participation rate
- Market price of child care has been flat for over a decade

Market Price of Child Care, 2000-2015

Real Quarterly Earnings of Child Care Industry Employees, by Level of Education



Child Care Quality

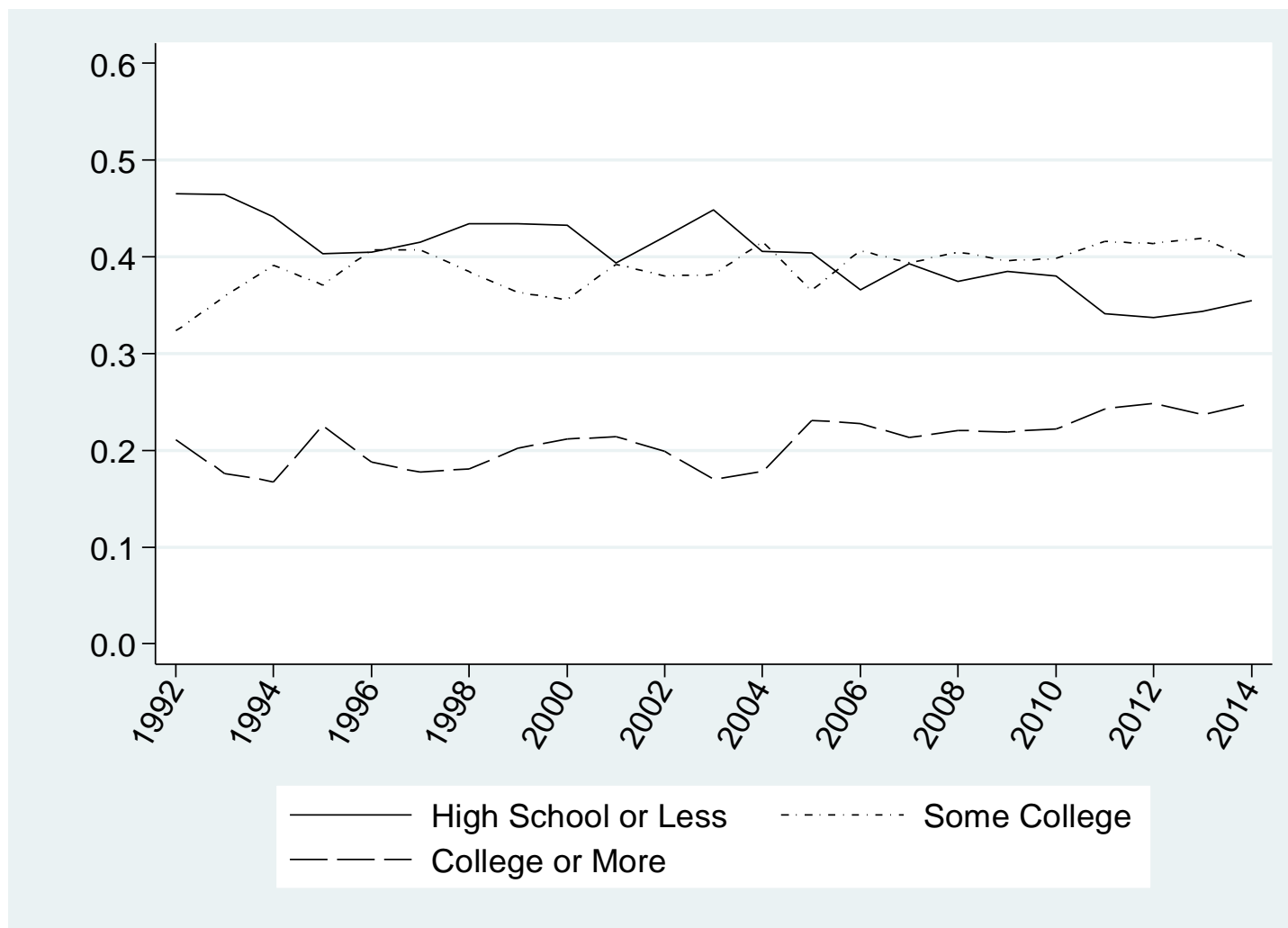
- Very good “case studies” highlighting the quality problem
 - Jonathan Cohn’s “The Hell of American Day Care”
 - Jackie Mader’s reporting in Mississippi for The Hechinger Report
- Academic research on quality
 - NICHD Study of Early Child Care: 42% of settings are “poor” or “fair” and 12% of children receive “positive caregiving”
 - National Research Council: 10%-20% of environments are “inadequate” and pose serious risks to child development
- Conditions are often worse for low-income children
 - 16% of those in the bottom SES quintile attend a preschool program rated to be “good” or better

Child Care Quality

- Quality concerns extend to state pre-kindergarten programs
 - Thought to be among the best available early education settings
 - Tennessee: 85% of classrooms score below “good” on quality
 - Georgia: 98% of classrooms are below “good”
- Educational attainment of child care workers
 - One ingredient in the production of child care quality
 - We have this information available over many years

Educational Attainment, 1992-2014

Fraction of Center-Based Child Care Workers with Various Degrees



Why Care About Child Care Quality?

- Academic achievement gap emerges before kindergarten
 - Low-income children: reading/math test scores 0.4 SDs below average
 - High-income children: reading/math test scores 0.6 SDs above average
- This gap persists throughout childhood and into adulthood
- Classroom quality has modest positive effects
 - A 1 SD increase in classroom quality leads to a 0.14 SD increase in test scores
- Enrollment in high-quality programs can close the income-based gap in achievement
 - 1 year of Tulsa or Boston preschool: 27 to 41% reduction
 - 2 years of Abbott (New Jersey) preschool: 30 to 40% reduction

The Problem? Information Asymmetry

- Child care is a very difficult “product” for parents to evaluate
 - Cost, accessibility, reliability, hours of operation, etc.
 - Quality is the most difficult attribute to evaluate (multi-dimensional)
- Parents find it difficult to discern low- from high-quality care
 - Parents overwhelmingly claim they value high-quality care
 - 81% say “learning activities” are “very important” to decision
- When parents cannot make informed decisions, they will not purchase high-quality care in the optimal amount
- Child care providers therefore have little incentive to supply it
- This forces high-quality providers out of the market, leaving those willing to offer lower-quality services

Indirect Evidence: Child Care Searches

- It is common for families to consider just one provider when conducting a child care search
 - 37% consider one provider
- Friends and family are the predominant sources of information
 - 54% of poor families rely mainly on F&F
 - 68% of wealthy families rely mainly on F&F
- Parents are less likely to inquire about quality during a search
 - Fees (39%), type of care (36%), hours of operation (35%)
 - Program content (26%), curriculum (18%), licensing (7%), turnover (4%)
- Parents may not be demanding child care consumers
 - Quality of current program rated “perfect” or “excellent” by 74% of low-income parents

Direct Evidence: Parent Ratings of Quality

- Naci Mocan (2007): Cost, Quality, and Child Outcomes Study
- Collected data on about 700 classrooms in 400 child care centers
- Parents and developmental psychologists observed and measured the same attributes of the classroom and center
- Parents overstate the quality of their child's arrangement
 - Responsive communication: rated **19%** higher
 - Small muscle activities: rated **15%** higher
 - Imaginative play: rated **35%** higher
 - Overall quality: rated **22%** higher
- Bottom line: Asymmetric information is probably real, and it's having an adverse effect on the child care market

Public Policy Remedies

- If the problem is the availability and appropriate use of information, then policy reforms need to handle both
- Aggressive consumer education campaign
 - Informs parents about the benefits of high-quality care
 - Changes parents' preferences and in turn changes behavior
 - Gives parents the tools to discern low- from high-quality care
- Quality Rating and Improvement Systems (QRIS)
 - Accountability-based tool to measure and improve quality
 - Increase uniformity in quality across various child care settings
 - Administered at the state-level
 - 42 states currently operate a QRIS

QRIS Description

- Providers volunteer to be assessed in relation to a wide variety of characteristics
 - Staff qualifications
 - Staff-child ratios
 - Classroom learning environment
- Receive a summary rating in the form of stars/numerical value
- Comes with technical assistance and financial support
- Program quality ratings are disseminated to the public
 - Most states operate a dedicated QRIS website
 - Used to search for local child care options
 - Programs' star-rating
 - Location, hours, fees, accreditations, etc.
 - Accept children receiving subsidies

QRIS Logic Model

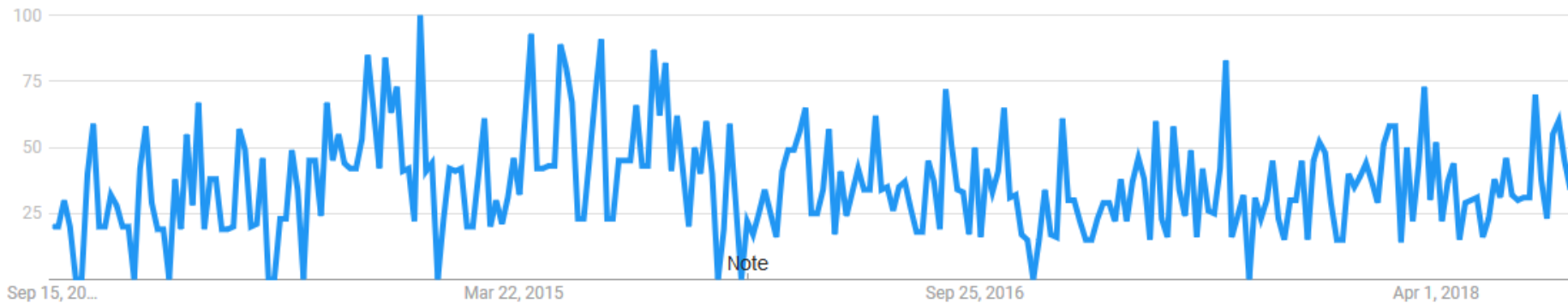
- Quality improvement occurs through three mechanisms
- Creation of clear quality standards
 - If standards are met, a program advances to the next quality tier
- Financial incentives
 - Program development grants
 - Financial rewards for reaching higher levels of quality
 - Staff bonuses and wage compensation
- Reputational incentives
 - Information on program quality is made publicly available
 - Parents use this information to inform child care choices
 - Generates competition between providers
 - Encourages the lowest-quality providers to improve the most

What Do We Know About QRIS?

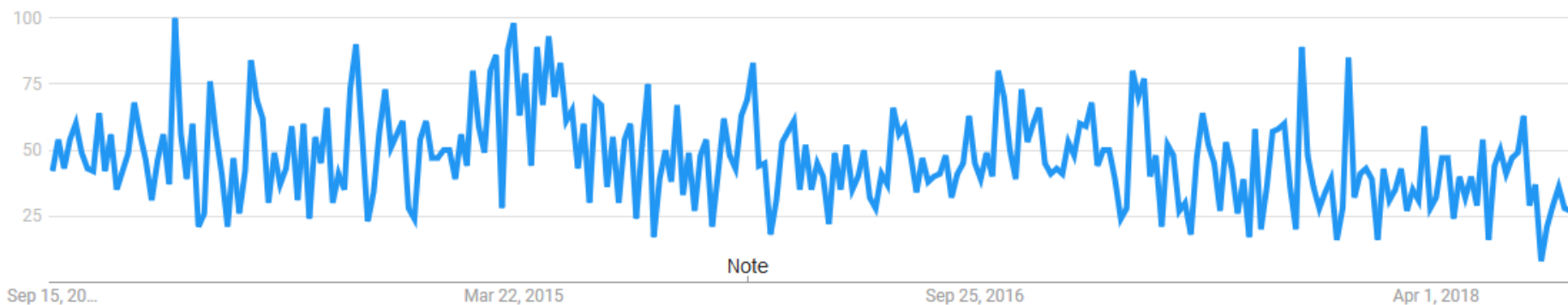
- Provider participation rates
 - In some states, participation is mandatory
 - MN: 38%; WI: 80%; NC: 89% (mature system); VA: 21% (new system)
- Provider improvement over time
 - MN: two-thirds improved at least 1 level over a 12 month period
 - IN: 20% advanced at least 1 level over a 6 month period
- Parent awareness and use of QRIS
 - Awareness rates in state-specific surveys: 17% in KY; 37% in IN; 87% in OK
- Parent visits to QRIS websites
 - Google Trends analysis of Google searches for state-specific QRIS names
 - I did this for 10 states

QRIS Awareness: Google Search Trends

Minnesota: Parent Aware



Wisconsin: Young Star



What Do We Know About QRIS?

- Effect of QRIS enactment on families' child care decisions
 - Exploit the differential timing in the introduction of QRIS across states
 - Increases the demand for non-parental care (+2 hours/week)
 - Advantaged families: more family- and center-based care
 - Disadvantaged families: more relative care
- Effect of QRIS on mothers' employment
 - Small increase overall: +1 hour/week
 - Advantaged families: +1.2 hours/week
 - Disadvantaged families: null effects
- Key question: why are advantaged families more likely to use higher-quality formal arrangements, while disadvantaged families are more likely to use lower-quality informal care?

Source: Herbst, C.M. (2018). The Impact of Quality Rating and Improvement Systems on Families' Child Care Choices and the Supply of Child Care Labor. *Labour Economics*, 54, 172-190.

What Do We Know About QRIS?

- Effect of QRIS enactment on the child care labor market
 - Increase in the supply of high-skilled labor working in center care
 - Increase in the rate of firm-hiring and employees' monthly earnings
 - Increase in turnover
- What happens when a state combines its QRIS with a child care wage supplement program?
 - Operating in 14 states
 - Example is Minnesota's REETAIN Bonuses program
 - Outcomes are more favorable than when just a QRIS is place
 - Increases in monthly earnings are larger
 - Increases in supply are larger
 - Turnover decreases
- Wage supplement programs may be integral to the success of QRIS

Source: Herbst, C.M. (2018). The Impact of Quality Rating and Improvement Systems on Families' Child Care Choices and the Supply of Child Care Labor. *Labour Economics*, 54, 172-190.

QRIS Questions and Concerns

- QRIS knowledge base is its early days of development
- QRIS does not ensure that more children will attend high-quality child care
 - Are high-quality programs available?
 - Are they affordable?
- Quality-driven competition may result in higher prices
 - QRIS could price low-income families out of the formal market
 - Unintended consequence: QRIS may lead some families to enroll in lower-quality child care
- Do parents place sufficient value on quality (or the ratings)?
 - Program quality is not associated with parent satisfaction
 - Parents may be using QRIS ratings as indicators of price, not quality

Concluding Thoughts

- Longstanding tension between the twin goals of policy
 - Support parental employment
 - Improve developmental outcomes for children
- Policies can achieve one goal, but not always both
 - Good for employment: Child Care and Development Fund (CCDF)
 - Good for kids: Head Start/state pre-k programs
- QRIS injects quality standards into the child care market
 - Systems' change, at-scale
 - Goal: to bring level of child care quality in line with Head Start/pre-k
- Next phase of child care policy reform should focus on costs
 - Shift from employment-based subsidies to quality-based
 - Generosity of subsidy could be a function of the QRIS rating