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Introduction

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Child care has attracted an increasing amount of attention in recent years from a wide variety of groups. As mothers of young children have entered the labor force in dramatically large numbers over the past two decades, sociologists, child development experts, advocacy groups, and policymakers have placed child care high on the research and policy agenda. Sociologists and psychologists have studied the social, economic, and demographic forces driving increased numbers of mothers of young children into labor force participation, the consequences for families and society of the need to provide child care during the mother's working hours, and the consequences to children of alternative types of child care arrangements. Child care advocacy groups have succeeded in forming a broad coalition of organizations committed to achieving increased government support for and involvement in child care. It is argued that this is essential to prevent the supposed lack of accessible, affordable, high-quality child care in the United States from becoming a major impediment to the well-being of families with young children. Policymakers from across the political spectrum have responded with an enormous variety of new proposals, and the debate over child care policy has recently occupied a prominent place on the political agenda.

It is widely recognized that economic issues are an important part of the debate over child care policy. These issues include, but are not limited to, the responsiveness of child care demand

and supply to prices, the efficiency of the child care market, the economic rationale for government subsidies and regulation of child care, and the role of employers in providing child care. Until recently, very little research by economists had addressed these issues in a manner that could provide useful guidance to policymakers. There are now, however, a substantial number of economists engaged in serious scholarly research on crucial economic issues in child care. The need for such research is pressing if policymakers are to have a basis for well-informed decisions. And, importantly, the results of the research must be presented to as wide an audience as possible in order to make the debate over child care policy a rational one.

This volume presents results from state-of-the-art economic analyses of child care issues in a form accessible to the nonspecialist. The chapters have been written by economists who are engaged in path-breaking work on child care. The results of this research have to date typically been published in academic economics journals or in technical reports to sponsoring agencies. The authors of the chapters in this book have recognized the need to disseminate their findings to a wide audience and have consequently written papers that report their research results in a nontechnical way, but without sacrificing their key insights. The goal of the volume is to bring basic principles and findings of the economic analysis of child care into wide currency among groups and individuals with a strong interest in and knowledge of child care issues but without the expertise to conduct or evaluate sophisticated economic research. Economists with an interest in child care should also find the volume useful.

The authors herein address some of the most important issues that have arisen during recent policy and scholarly debates on child care. The economic perspective on these issues is often quite distinct from the perspective of other disciplines. The unique contribution of the economic perspective on these issues is to clarify some of the fundamental sources of disagreement in the debate over child care policy. In the following paragraphs I sketch some of these key issues and summarize the approaches to them developed in the book.

The first and, in some ways, most basic issue to which economists can contribute is the rationale for government involvement in child care. This issue was not prominent in the recent debate leading to the passage in 1990 of major new child care legislation. Apparently, there is widespread agreement on the need for government subsidization and regulation of child care.

The debate centered instead on the size and form of government intervention. But the fundamental question of why government involvement in child care is desirable at all is extremely important, and economics provides a natural framework in which to address it. As summarized in the paper by James Walker, there are two basic reasons that society might wish for government intervention in the market for child care services. The first is inefficiency: if there is some source of imperfection in the child care market that prevents it from operating so as to maximize consumer welfare, *and* if the government can itself avoid the problems that led to the imperfection, then government intervention to improve the functioning of the market is warranted. The second possible reason for government intervention is inequity: if the distribution of child care services generated by the market is considered inequitable to consumers, then intervention can be justified. Efficiency and equity issues are closely related and are both of profound concern to those who are involved in child care. Nevertheless, as discussed by Walker, separation of the issues clarifies the motivation for government intervention. Efficiency is the natural starting point for analysis, since understanding how the market operates logically precedes normative evaluation of how the resulting services should be distributed.

Philip Robins, James Walker, and Ellen Kisker and Rebecca Maynard all argue in their chapters that an important source of potential inefficiency in the child care market is that parents may be poorly informed about the quality of care their children are receiving. Subsidies may induce parents to purchase higher quality care; regulations may prevent low quality care from being offered by providers; and government-sponsored consumer education may improve parents' ability to discern quality in child care. Walker offers an important note of caution, however. Before government intervention can be justified on these grounds, it must be determined that the government is better able than parents to measure quality and enforce regulations governing quality. Walker argues that it is not at all obvious that this is the case. Kisker and Maynard propose that the government's advantage over consumers in this area is its ability to use information on quality generated in research by child development experts. This leads directly to the second main issue common to the papers in the volume: child care quality.

Because the quality of child care is of central importance to child care policy, it is discussed throughout the volume. Two important themes emerge from the discussion in the chapters. First, quality is a shorthand notion for a variety of attributes of child care. It is often analytically convenient to model child care services as if quality were unidimensional and each provider could be ranked on a single scale in terms of the quality offered. This approach is typically used in formal economic models of child care, as discussed in the paper by Philip Robins. The papers by James Walker and me emphasize that a child care arrangement consists of a bundle of attributes, such as group size, child–staff ratio, the nurturing given by the providers, the educational opportunities offered, convenience to the parents, reliability, and numerous others. This leads to important decisions that must be made by parents in weighing various attributes against one another and considering the specific needs of their child at a given age when choosing a provider. Second, the measure of child care quality developed by child development experts tends to put heavy weight on those attributes of arrangements that promote child development, as measured by standard instruments such as the Peabody Picture Vocabulary Test. Several of the chapters stress the fact that parents may care about other aspects of child care in addition to those considered by the child development field. Philip Robins and Rachel Connelly both argue that increased expenditure on child care by parents leads almost by definition to improved child care quality from the perspective of the parents. But there is no guarantee that increased expenditure, whether due to government subsidies or other causes, will lead to increased quality from the perspective of child development. Kisker and Maynard and I discuss evidence concerning the relationship between quality as defined in the child development literature and parental expenditure on child care, and conclude that there is little evidence of a positive association. Both chapters discuss the possible consequences of government subsidies that are tied to the use of providers meeting regulations intended to promote child development.

A third important issue that is discussed in several of the chapters is the behavior of consumers in the child care market. Economists have a well-developed set of tools for analyzing consumer behavior, and several of the chapters discuss in detail how these tools can be applied to study a particularly important issue, the response of consumers to increased government subsidies for child care expenses. Rachel Connelly presents convincing evidence that the labor force participation decisions of women are influenced by the cost of child care they face. Women who would have to pay a relatively high price for child care are, other things being equal, less likely to work. Philip Robins describes evidence indicating that parental expenditures on child care are sensitive to the price of child care. These observations imply that increased government child care subsidies to consumers will induce more women to join the labor force and will cause the average quality of purchased care, as viewed by parents, to increase. These are potentially important effects of increased government child care subsidies that should be considered when evaluating the likely consequences of such increases.

The final main issue of importance discussed in the volume is the supply of child care. If there are imperfections in the child care market, they are generally thought to occur on the supply side, so careful analysis of the supply of child care is a crucial component of a complete analysis of the rationale for government intervention. Some particularly vexing queries concerning the supply of child care services are why child care providers receive such low wages, experience high turnover, and receive little or no reward in the market for costly investments in education and specialized training. James Walker discusses these and related issues at length in his chapter. He summarizes evidence suggesting that the child care market is characterized by substantial heterogeneity of providers, particularly in the family day care sector. Unregulated providers appear in general to be disinterested in maximizing income from child care by advertising and investing in improved service quality. Entry and exit from the market are low-cost actions for providers of this type, leading to an effective ceiling on wages and little incentive to attempt to meet standards imposed on the regulated sector. Regulated providers behave more like "firms" attempting to maximize profits, but their relatively low earnings impose limits on their ability to invest in meeting tighter standards.

The issues discussed above by no means exhaust the areas in which economic analysis of child care can provide useful insights. Among the many other issues discussed in the chapters in this volume are the conditions under which the existence of waiting lists for slots in day care centers provides evidence of a shortage of child care; an analysis of the effects of regulation of child care inputs on the quality of child care provided; the relationship between the cost of child care and participation by low-income single mothers in the Aid to Families with Dependent Children (AFDC) program; and proposals designed to make the distribution of child care services more equitable. In the following paragraphs I summarize the contents of each of the chapters.

In "Child Care Policy and Research: An Economist's Perspective," Philip Robins presents a broad overview of child care trends and policies in the United States, and describes, both in general terms and with reference to examples from his own research, how economic analysis can illuminate child care policy issues. An important contribution of this paper is its thorough and detailed examination of current federal and state child care policy. Robins documents a pronounced shift in federal child care subsidies in recent years away from expenditure-based programs such as Title XX, that are targeted to low-income families, toward the Child Care Tax Credit, which benefits mainly middle- and upper-income families. He discusses the major recent legislative initiatives on child care, including the Family Support Act (FSA) and the recently passed package of new federal programs. Robins identifies the key policy issues concerning these recent child care initiatives as their costs, their labor supply effects, and their effects on the demand for child care. He then describes in detail how economists formulate models that can be used to analyze these issues, and reports the results of his own modeling efforts. His discussion is focused on the effects of making the Child Care Tax Credit refundable, which was an important element of the Act for Better Child Care Services (ABC) bill aimed at increasing the availability of the credit to low-income families. Robins concludes that the indirect costs of refundability may be quite large, because of increased use of the credit resulting from increased labor supply induced by refundability.

James Walker provides a different economic perspective on child care in "Public Policy and the Supply of Child Care Services." Using insights drawn from economic theory, together with detailed knowledge of the special characteristics of the child care market, Walker provides an analysis of the performance of the child care market in terms of economic efficiency. He describes popular perceptions of the child care market as a poorly functioning one characterized by chronic excess demand, low average quality of care, low wages, and high turnover. He notes that evaluation of these claims cannot be based on the simple descriptive statistics often used to support them, but rather requires an interpretive framework based on explicit models of consumer and provider behavior that incorporate specific features of the child care market. The specific features identified by Walker as important include the multidimensional nature of child care services, leading to product differentiation and the diversity of modes observed in the market; the often blurred distinction between consumers and producers, given that many child care providers are themselves mothers of young children; and the substantial differences between regulated and unregulated providers along dimensions such as education, experience, earnings, and firm size. Walker then provides an insightful analysis of possible sources of inefficiency in the child care market, discussing the consequences of imperfect information, incomplete markets, and externalities. Walker's paper is the first careful analysis of the child care market from a market organization perspective, and provides a wealth of useful insights on the issues involved in evaluating claims of market failure.

Rachel Connelly analyzes the demand side of the market for child care in her paper, "The Importance of Child Care Costs to Women's Decision Making." Connelly focuses on the influence of the cost of child care on labor supply behavior of mothers, a very important issue for public policy. If large new government subsidies to child care result in a lower net cost of care to families, more women are likely to enter the labor force, yielding a possibly large indirect cost to the government. Connelly uses the most recently available national data to provide a detailed analysis of who pays how much for child care. She makes the important point that a majority of families incur no direct cost for child care, and the determinants of whether a family makes any direct cash expenditures for child care may be different from the determinants of the level of expenditure among paying families. She also notes the importance of self-selection in data on child care expenditures: only families with employed mothers are included in the sample, but those mothers facing the highest cost for child care may have chosen not to work. After discussing these issues thoroughly, Connelly goes on to present a careful theoretical analysis of the impact of child care costs on fertility and employment decisions. She reviews the empirical literature on these subjects and concludes that there is a strong consensus among economists that child care costs exert a negative effect on labor force participation of mothers. There is not yet a consensus on the magnitude of the effect. Connelly identifies several important areas in which further research on this subject is needed.

The chapter written by Ellen Kisker and Rebecca Maynard, "Quality, Cost, and Parental Choice of Child Care," provides an analysis of the relationship between the quality and cost of child care, and how this influences parents' child care choices. The authors review evidence on the characteristics of child care that have been shown to be associated with good child development outcomes. They make the important point that parents may judge the quality of care by different criteria than those used by child development experts. It is argued that parents generally have very limited knowledge about the characteristics of their child care options that are important from a child development perspective. These points may help explain the fact that the price parents pay for child care tends to be unrelated to regulatable indicators of child care quality, despite the fact that the resource cost of child care is clearly related to these indicators. Kisker and Maynard identify several areas of public concern and describe the main policy options currently under consideration nationally. The likely effects of these options are reviewed, and the chapter concludes with a strong statement of support for policies to increase the availability and use of high quality care.

The last chapter in the volume, written by me, is "The Quality of Child Care: An Economic Perspective." This chapter has the goal of clarifying the difference between child development and economic views of child care quality. This may seem presumptuous on the part of an economist, given the expertise of members of the child development profession in measuring and analyzing factors that affect the well-being of children. However, child care choices are made by parents in the context of their preferences, budgets, and the regulatory environment, and these factors may have a decisive influence on the quality outcomes observed. In this paper I present simple characterizations of alternative models of child care quality and contrast their behavioral and policy implications. The "educator's" model focuses on the "technology" of producing child care quality and does not contain an active role for parents. The economic model contains the same "production process" as the educator's model, but embeds it in a model of family decision making. In this model, parents have preferences over child care quality as well as other attributes of child care arrangements such as convenience, reliability, and values shared with the provider. Empirical evidence concerning the implications of the economic model is reviewed, and some new evidence is presented on the determinants of the attributes of the inputs (child–staff ratio and provider training) in the child care arrangements chosen by families. The implications of the economic model for the current policy debate concerning federal regulations and tying increased subsidies to the use of regulated facilities are discussed.

The chapters in this volume (except my own) were originally papers presented at the Carolina Public Policy Conference on "The Economics of Child Care" held at the University of North Carolina at Chapel Hill on May 16, 1990. The conference was attended by about one hundred representatives of academic institutions, government agencies, think tanks, and citizen organizations. Each paper was discussed by an expert on child care from a field other than economics, including sociology, psychology, policy analysis, and advocacy. The comments of these experts contributed to a lively discussion at the conference and have been included here in written form when available.