

POLICY FOCUS

Regulations and Child-Care Costs

RECIPES FOR RATIONAL GOVERNMENT FROM THE INDEPENDENT WOMEN'S FORUM

Carrie Lukas, Managing Director, Independent Women's Forum

December 2015

Volume 5, Number 12

IN THIS ISSUE

**What You Need
to Know** 1

Why You Should Care 2

More Information
Daycare Prevalence
and Costs 2

Regulations Can Make
Child Care More Expensive,
Without Much Benefit 2

Who Should Pay for
Child Care Costs? 4

Can Subsidies Make Child
Care More Expensive? 5

What You Can Do 6

WHAT YOU NEED TO KNOW

Child care can be a major expense for single parents and families in which both parents work. Full-time, center-based child care cost an estimated \$14,508 in 2014 on average for an infant, and \$12,280 for a four-year-old, according to [Child Care Aware of America](#). While some government programs help working parents afford child care, parents directly pay an estimated 60 percent of costs.

New research suggests that these costs are higher than they need to be. Economists writing for [the Mercatus Center](#) evaluated common child-care regulations and found that some (such as child-to-care giver ratios) are associated with significantly higher costs, but not meaningfully improved quality. Therefore, policymakers could roll back these regulations, potentially saving working families thousands of dollars, without sacrificing child-care quality. Eliminating inefficient regulations could also encourage more providers to enter the marketplace, bolstering the supply of child care and further bringing down costs.

Less regulation and more competition can make child care more affordable. However, child care will never be cheap, nor should it be: It's a labor intensive industry, and child-care providers need to be properly compensated. Most public debate about child care isn't really about price, but who should pay: parents or taxpayers? While assisting low-income workers with child-care costs can be a sensible policy choice, there is no reason why government should generally subsidize paid daycare above all other parenting choices. Rather, policymakers should ease the financial burden on parents regardless of their child-care arrangements.

WHY YOU SHOULD CARE

Ineffective regulations are making daycare more expensive than it needs to be, which has important effects on Americans:

- **Needlessly Straining Family Budgets:** Child-care costs are a major expense for families that pay for care. Bringing down those costs will ease financial pressures and free families to spend on other priorities.
- **Discouraging Parents from Working:** A parent considering accepting a new job must consider how much she will earn compared to how much she must spend to take the job. High child-care costs discourage some from accepting positions, which can impact the economy as well as that individual's long-term economic prospects.
- **Burdening Daycare Providers:** An estimated 2.2 million people make their living caring for children under age five. Regulations that increase costs for daycare providers make it harder for them to stay afloat and support these jobs. Reducing ineffective regulations would make these businesses more sustainable and encourage entrepreneurs to enter the daycare business, which could alleviate shortages and further bring down prices.

Rolling back ineffective regulations could also enable daycare providers to reinvest in other measures that would improve child-care quality.

MORE INFORMATION

Daycare Prevalence and Costs

Today, due to the growing prevalence of working mothers and single parent households, **less than one-third of children** are cared for by a full-time, stay-at-home parent. That's down from more than half of children in 1975. Still, only one quarter of children under age five are in an organized daycare facility. Most children are cared for by a relative, or in their home or that of a friend or other family.

However, for the minority of families that use organized care facilities, child care represents a major expense. **Child Care Aware** released a detailed analysis of the average costs of child care, which vary considerably by state:

Our 2014 Cost of Care report indicated that the average annual cost of full-time care for an infant in center-based care ranges from \$5,496 in Mississippi to \$16,549 in Massachusetts. ...For a 4- year-old, center-based care ranges from \$4,515 in Tennessee to \$12,320 in Massachusetts....

These are big numbers: In fact, in 31 states, the average cost of full-time daycare for an infant is more **expensive than the tuition at the public college**. For many families, child care is their biggest monthly expense, exceeding even housing.

Regulations Can Make Child Care More Expensive, Without Much Benefit

Economists Diana W. Thomas and Devon Gorry conducted a study meant to evaluate child

care regulations to see how they impact cost and the quality of care that children receive. Their report, “Regulation and the Cost of Child Care,” was published by the Mercatus Center at George Mason University and has important public policy implications. As the authors write:

...regulations intended to improve the quality of child care often focus on easily observable measures, such as group sizes or child-staff ratios, that do not necessarily affect the quality of care but do increase the cost of care. These regulations can have unintended consequences, including increasing the cost of child care while decreasing the wages of child-care workers. Eliminating regulatory standards that do not affect the quality of care while focusing on those that do, such as teacher training, will improve the quality of child care while making it more affordable to low-income families.

For example, the economists found that relaxing the regulations governing the maximum child-to-staff ratio can significantly impact costs: Allowing one more infant per caregiver reduces costs by an estimated 9 to 20 percent or between \$850 and \$1,890 annually. That savings could make a big difference for a family on a tight budget.

These cost savings are particularly attractive given that research suggests that the child-to-staff ratios do little to enhance the quality of care that children receive. The economists analyzed numerous studies that focused on the relationship between different input factors and the quality of care and found little evidence that regulations

governing child-to-staff ratios or group sizes actually improve quality. The only requirements that were associated with improved quality related to the education and training of the caregivers. The economists explain the important implications of their findings:

Overall, these results suggest that relaxing regulatory requirements for group size and child-staff ratios, while maintaining quality through training requirements for teachers, might lower the cost of providing child care without significantly affecting quality. If one provider is allowed to care for a larger number of children, that provider can earn a higher wage. Higher wages would attract better-educated providers and reduce staff turnover rates overall.

In other words, relaxing staff size regulations would not only reduce the price of daycare, but would also allow daycare centers to reallocate some funds to those endeavors which are more likely to improve their services and care quality, for example, by having fewer, more highly-skilled and better compensated workers.

Additionally, fewer regulations, such as those that govern the setup of daycare facilities and other business practices, might also encourage more entrepreneurs to enter the child-care business. This could reduce the shortage of child-care spaces that exist in many parts of the country today and would also apply downward pressure on price and encourage higher quality by increasing competition among providers for potential customers.

The Mercatus study also notes that a decline in the price of child care could have important effects for families and the economy in general. They cite research showing the impact that child-care costs can have on women's (particularly single women's) decisions about whether to join the workforce. One study found that a one percent increase in child-care costs decreases the employment of single mothers by between 0.3 and 1.1 percent. This means that reducing regulations and bringing down the cost of child care could encourage more women to reenter the workforce, which could give our economy a needed boost and enhance the long-term financial prospects for these families.

Who Should Pay for Child Care Costs?

Policymakers should eliminate regulations that needlessly increase child care's costs. Yet the public should also understand the reasons why child care is relatively expensive and needs to be: Taking care of young children, particularly babies, is time consuming and a great deal of work. Even absent regulations that stipulate a maximum allowable child-to-caretaker ratio, there is clearly a limit to how many small children one person can adequately care for at a time. The costs associated with each caretaker—plus the overhead of the facilities, necessary materials, as well as administration, insurance and other legal matters—must be divided among those children and is a considerable expense. Streamlining regulations and other policy reforms could bring down child-

care costs, however, as a labor-intensive industry, child care will simply never be cheap.

Most public discussions about child-care costs aren't really about the price tag, so much as who has to pay it. In the United States, parents currently pay the lion's share of child-care bills directly. In fact, Child Care Aware estimates that parents cover 60 percent of child-care costs themselves; and middle-class parents pay a much higher share.

In contrast, Americans often hear that high-quality child care is inexpensive throughout Europe. But the big difference isn't in the actual cost of care, it's that most EU governments heavily subsidize daycare, leaving parents to pick up only a small share of the bill.

Many Democrats and some Republicans want America to move closer to that model, either by increasing government subsidies for child-care centers or by giving parents tax breaks to reduce their child-care costs. In both cases, the goal is to reduce parents' out-of-pocket burden in paying for daycare.

Yet Americans should be wary of this cost shifting. A strong case can be made that parents deserve tax relief to ease the financial strain associated with raising the next generation. But focusing that support solely on those who use formal daycare programs would be unfair to the millions of parents who have different preferences for their families.

As noted previously, only a minority of parents use paid daycare centers. Today's high costs may

discourage many who would otherwise want to use this service, but surveys also suggest that most parents believe their children are better off in family-based care. For example, when the research firm **Public Agenda** asked parents of children under age five about the best child-care arrangement, 70 percent thought it was best for one parent to be at home. Just six percent thought a quality daycare center was optimal.

Targeting subsidies to paid daycare providers would change the calculations families make and discourage the use of family care. Today, a grandparent may volunteer to look after a new baby so a parent can go back to work, but would be less likely to do so if there were a “free” or heavily subsidized daycare alternative.

Government can better help parents without skewing their decision-making by providing across-the-board tax relief. That support can be further targeted to help working families with modest incomes and young children, who are likely to feel the most financial pressures. With more money in their pockets, parents could better follow their preferences, whether that’s paying a daycare provider or keeping a parent at home. U.S. economy and to American families.

Can Subsidies Make Child Care More Expensive?

Those who would prefer to increase subsidies to help parents shoulder child-care costs ought to consider the experience with college tuition. The government has greatly increased aid for students in an attempt to make college more affordable, but a recent **report** by the Federal Reserve Bank of New York found that, ironically, these subsidies are helping fuel the rise in tuition costs.

In fact, the authors estimate that 65 percent of the support that is meant to help students and make tuition more affordable is directly passed on to the colleges. In other words, the colleges are increasing what they charge students to capture the government subsidies. As explained by the **Foundation for Economic Education**, “the institutions that were most exposed to the increases ‘experienced disproportionate tuition increases.’” And, ultimately rather than making college more affordable, subsidies have enabled colleges to jack up their prices.

Increased subsidies for child care might similarly allow child-care providers to increase prices, leaving those parents receiving subsidies only a little better off, and those without access to subsidies worse off as they face even bigger child-care bills.

WHAT YOU CAN DO

You can help advance smarter policies to make child care more affordable and accessible.

- **Get Informed:** Learn more about the child-care issue! Visit:
 - The Independent Women's Forum
 - The Mercatus Center
 - Heritage Foundation
- **Talk to Your Friends:** Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.

- **Become a Leader in the Community:** Get a group together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.
- **Remain Engaged Politically:** Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

ABOUT THE INDEPENDENT WOMEN'S FORUM

The Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

We rely on the support of people like you! Please visit us on our website www.iwf.org to get more information and consider making a donation to IWF.

OUR PARTNERS

Contact us if you would like to become a partner!

CONNECT WITH IWF!
FOLLOW US ON: