

Why is childcare getting even more expensive? ^[1]

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EXCERPTS

For many parents, putting a kid in daycare costs more than the rent. And the price continues to climb.

The expense of childcare, which includes both daycare and nursery school, has outpaced inflation since the recession, according to data from the Department of Labor. From 2009 through 2016, the overall Consumer Price Index increased about 12 percent while the childcare and nursery school index (yes, there is one) jumped more than 21 percent, according to data provided to the Bureau of Labor Statistics. In other words, people are shelling out a lot more cash on their kids than on anything else.

The prevailing theory is that staffing daycare centers is expensive and there's no way to make it cheaper. Taking care of kids is labor-intensive while increasing worker productivity is difficult. One person can only look after only so many kids, and regulations demand certain adult-to-child ratios for safety and quality reasons. But those explanations don't answer why it's getting so much more expensive. What could possibly be pushing the prices so high? What is it about caring for children that has gotten so costly?

"I, for the life of me, can't identify where the money is going," said Arizona State University researcher Chris Herbst, who put out a paper in 2011 arguing that the rising cost of childcare has been greatly overstated. Well, maybe we can figure it out-let's investigate.

Daycare Workers Are Being Paid More: Definitely Not

If labor costs keep childcare expenses high, maybe that's pushing prices higher. Perhaps the women looking after our kids are pocketing more money?

Not so. Childcare workers are some of the lowest-paid workers, and their salaries are shrinking. Right now they make an average of \$10 an hour, according to the BLS. Over the last five years, the median wages of childcare workers have decreased in all but 13 states, according research published last week by the Center for the Study of Child Care Employment at the University of California. This decrease in pay matches labor trends in daycare as the supply of willing workers has increased. Employment in childcare is at an eight-year high. But instead of lower employee pay leading to lower prices for parents, the opposite has happened.

Day Care Centers Are Charging More: Maybe, Sort Of

Parents don't treat daycare as a commodity. People will pay for quality, if they can. In the case of daycare, that means lower kid-to-staff member ratios-which, as described above, costs more money for parents. Still, only the most privileged can afford the plushest programs. And as the economic recovery has disproportionately benefited high-skilled, high-income workers, they've put more of that money toward daycare. In a paper published last year, Herbst found (PDF) that from 1990 to 2011, high-income families saw a 48 percent increase in childcare costs, whereas low-income families only saw a 10 percent increase.

One explanation for that: choice. People with money are shelling out unprecedented amounts of cash for early childhood education.

"Montessori and Primrose are all over the place and exist in high numbers in high-income communities, whereas a couple of decades ago it was hard to find these high-quality providers," he said. "They've found an eager consumer base."

High-income earners also generally live in neighborhoods with a high cost of living, which includes high rents. That may push up the price of daycare located in the same areas. "In certain major urban areas where real estate costs are so high, fixed costs are going up," said Marcy Whitebook, the director of the Center for the Study of Child Care Employment. "The costs are being passed on to families."

Increased Demand for Daycare Is Driving Cost: Probably Not

One theory is that as the economy recovers and more people enter the workforce, more will need someone to watch their kid, pushing prices up.

Herbst is skeptical. "The demand for childcare has stagnated," he said. "Labor force participation rates for women with preschool-age children suddenly stopped growing in the early 2000s." Since the recession, the workplace participation rate has ticked up, but only slightly, for women with children under the age of three. Back in 2009, the workforce participation rate for women with young kids was

61.1 percent, in 2015 it was 61.4 percent, according to the BLS.

Regulations Are Driving Up Prices: Unlikely

Childcare is a highly regulated industry. Each state has its own rules about staff ratios and how much space a center must allocate per child, two things that can push costs up, in theory.

Herbst, however, finds that regulations haven't raised prices for parents. "It's a rather modest effect," he said. A new regulation doesn't change business as usual for a daycare facility. Many centers tend to exceed state requirements because that's what parents want, anyway. On the other end of the spectrum, some providers don't conform to regulations at all.

Decrease in Government Funding: Potentially.

Because of the labor constraints, government subsidies are one of the few ways to lower childcare costs for parents.

In fact, low-income families have seen a much smaller increase in childcare costs because of increased public funding, argues Herbst. Head Start, an early childhood education program for low-income families, got more funding in 2015 than it did in 2009. That funding, however, varies widely by state, and Whitebook said that "most states aren't back to where that funding was" pre-recession.

"When you limit the public dollars, you have more parents paying for childcare," she said. "That's part of why costs go up: There's less help out there in the community."

None of these theories is wholly satisfying, but we do learn one thing: Childcare is a nuanced landscape. It can mean anything from fancy \$40,000-a-year daycare centers to Head Start programs to nanny shares. That it means so many different things to different people might be the main issue with figuring out where the soaring costs are coming from. "One of the problems is you have to look at what's happening for people who have infants and toddlers vs. people who have preschoolers. How is it different in rural areas vs. urban areas," Whitebook said. "It's hard to get a real handle on any given market."

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