

# Outside Forces Affecting Child Care Markets: Insights into Market Dynamics

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# Child Care as a Market

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*A market is the collection of buyers and sellers that, through their potential interactions, determine the price of a product or set of products.*

*In child care and early education, market describes how some parents and child care providers connect with one another.*

# Not All Providers Charge Fees and Not All Fees are Market-Based

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- Majority of relatives do not charge a fee
- Head Start and some other publicly funded programs do not charge a fee
- Among those that do charge parents, only some charge market prices
  - Market prices established through arm's length transactions
  - Prior relationships between parent and provider likely to affect price
- Access to free care and nonmarket prices constrains price

# Child Care and Education Market is Complex

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- Market operates as a set of submarkets differentiated by:
  - Age of child
  - Type of care
  - Schedule
  - Geographic location
- Market prices reflect differences between submarkets
- Recession effects likely to vary across submarkets

# County Demographic Characteristics are Associated with Child Care Prices

- Housing prices were found to be strongly correlated with child care prices.
  - *Minnesota* – Fair market rent and average earnings were positively associated with child care prices (Davis & Li, 2005).
  - *Wisconsin* – Child care prices were found to be highly correlated with median gross rent across ages and type of provider ( $> 0.71$ ). Also significantly correlated with percent urban and median family income (approximately 0.70 across ages and type of care).
  - *Oregon* – Child care prices were most highly correlated with median housing costs (0.85) and mean gross rent (0.83). These patterns continue but to a lesser extent for household income, urban/rural classification, population, and percent urban.
  - *Illinois* – Housing costs (median rent, median home value, median real estate taxes) were highly correlated ( $>0.80$ ) with prices for both centers and family child care.
  - *California* – Factors highly correlated with child care prices were median home value ( $>0.52$ ), mean gross rent ( $>0.48$ ), median real estate taxes ( $>0.46$ ), and median household income
- For all of these states, income was correlated but the association was weaker ( $>0.42$ )

# Market Forces—Providers (Supply-Side)

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- ⊙ Average wages (+)
- ⊙ Housing Prices (+)
- ⊙ Regulation (mixed)
- ⊙ Average quality (+)
- ⊙ Public spending (+)

# Market Forces—Parents (Demand-Side)

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- Population of children (+)
- Family structure
  - Average number of children per family (-)
  - Single parent (-)
- Income (+ but complex)
  - Household or
  - Female earnings
- Employment level (+)
- Urbanization (+)

# System Fueled Predominantly by Demand-Based Funding

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- Major demand-based public funding--\$13.4 billion
  - Subsidy—CCDF, TANF, & State estimated at \$10 billion (USDHHS, 2009;Schulman & Blank, 2008)
  - Child and Dependent Care Tax Credit and DCAP estimated at \$3.4 billion (U.S. DHHS, 2005)
- Major supply-based public funding--\$9.4 billion
  - Head Start/Early Head Start estimated at \$6.9 billion (USDHSS, 2008)
  - Universal pre-kindergarten estimated at \$2.5 billion (Barnett, Hustedt, Robin, & Schulman, 2004)
- Parent fees estimated \$43.9 billion (Johnson, 2005)



# Factors Related to Recession Effects on Child Care and Early Education

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- Community-level socio-economic factors :
  - Household income stable or declining
  - Employment level declining
- Public expenditures
  - Supply-based
  - Demand-based
- Recession effects likely to vary by:
  - Community
  - Within community by child care submarket

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