

## D2: Child Care Access: Market Failure or Priority Failure?

Thursday, June 29, 2023

10:45 a.m. – 12:00 p.m. | Archives

### 1. Descriptive Information

#### D2: Child Care Access: Market Failure or Priority Failure?

Policy solutions for access to early care education have attempted to solve the problems of insufficient child care access based on the assumption that there is a market failure. The solutions often try to redirect the way in which the money is being delivered and create incentives in the market, guided by the idea that by tweaking these structures or rules, the market would function more effectively. The truth of the situation might very well be that there is simply just not enough money or social priority for providing access to child care for the market to supply adequate access to affordable, high-quality care for all children. There also may be regulatory or policy failures in the sense that policies have unintended consequences. Topics to be covered include the following: How do economists define market failure? What is market failure in child care? Is market failure a helpful or misleading lens for understanding sustaining child care? If more resources are provided to the sector, how will the market (e.g., providers and parents) respond? How does the way in which resources are provided lead to intended and unintended consequences? For example, what are the effects of regulations and policies on privately provided services (both tracked and not tracked) and spillovers across age groups, and who gets more access? What are the implications for research and policy?

#### Presenters

**Liz Davis**, University of Minnesota  
**Herman Knopf**, University of Florida  
**Sally Atkins-Burnett**, Mathematica  
**Gina Adams**, Urban Institute  
**Bobbie Weber**, Oregon State University  
**Jonathan Borowsky**, University of Minnesota

#### Scribe

**Allison Wimmer**

**Number of Attendees:** ~25

### 2. Documents/Presentations Shared (Please list any electronic documents, PowerPoint presentations, or web links used during the session.) *Collect presenter PowerPoints or other documents on the flash drive provided.*

- Child Care Access: Market Failure or Priority Failure?

### 3. Brief Summary of Presentations

#### Child Care Access: Market Failure or Priority Failure?

##### Panel Discussion led by

**Liz Davis**, University of Minnesota

**Herman Knopf**, University of Florida

**Sally Atkins-Burnett**, Mathematica

**Gina Adams**, Urban Institute

**Bobbie Weber**, Oregon State University

**Jonathan Borowsky**, University of Minnesota

What do we mean by market failure?

- Market failure vs broken market
- Market has worked to some extent because increased employment of mothers increased demand and led to a increase in supply

- High demand – waiting lists, difficulty finding care, “child care deserts”
- High cost, unaffordable – yet low wages

Market failure – inefficient distribution of goods and services in the market, distribution can be improved upon

- Sources of market failures: externalities, market control (few people in control of supply/monopoly)
- Information failure (i.e. consumer education)
- Market works if “Families who need care have access to options that meet their needs”
- Do families act like consumers of the market? Do ECE providers act like producers in a market?

What are society’s objectives for ECE, do we have consensus? How does lack of consensus affect policy?

- Bobbie – if you’re talking about the education part, the conversation moves forward, but it stalls around care. Grocery store test – ask people in a store if children being ready for school is important, you’ll get almost 100% agreement. But if you ask if it should be available to all children, if it should be subsidized, if child care workers should be paid a living wage, there is no longer consensus.
  - Key point: absence of public will, even broadly agreed upon points fall apart when you drill down to the nuanced conversations
  - Referencing plenary conversation with White House staff – even the largest investment in history still needs sustained investment

Gina - What are we talking about when we say market? Which providers, what hours, what type? There is a lack of consensus.

- Very concerned about the move to only 0-5, instead of thinking of child care as an issue that continues past age 6
- Even with a lot of resources, the decisions about **who** gets the resources is still in contention
- Is our definition of the market the same as how parents are thinking of that?

Positive externality – because there is external benefit, the market itself may not provide enough investment

Jonathan – do parents act like consumers in a market? What makes something market-like vs not-market-like?

- Two things – parents make choices for themselves, based on the information presented and options available
  - They found parents report high satisfaction with the provider they chose, indicating that they may not know what’s best or have different views on what is quality
  - Increase in subsidy resulted in increase in quality
  - Evidence-based that yes they do act like consumers, in the sense that if they have the resources to find something for themselves they succeed. Do consumers/parents have enough in order to do what they need to do?
- Sally – not enough availability, in rural areas, home-based care that don’t know how to be licensed, “child care deserts,” families with special needs that cannot be met by what’s available to them.

Limitation of available resources, particularly for low-income

- Child care is **so** essential, especially for low-income. Example, single mother who lost child care then lost job, making finding a job hard because she needed a job to pay for child care and child care to find a job. Downward spiral, no options.

Liz – If there are more resources, will that help “the market”?

Herman – instances of businesses that start with low-prices, attract business, then slowly elevating prices

- Other examples of businesses raising prices in areas where families can afford it
- Example Miami-Dade area – responding to serving subsidy children rather than serving business interests, which may not be sustainable
  - Savy business who only operate for business interests and don’t serve parents with limited resources who need services
  - Many successful or high quality providers don’t have many subsidy kids, so increasing rates may not have impact on behavior
  - Cannot be piecemeal, has to be bold, and not just on payment sides of things
    - Raising subsidy rates can raise rates everywhere
    - Have to be prepared to expand how many people we’re helping

Bobbie – Majority of providers serve under 50 children. That’s the group that is most responsive, that keeps their prices down. First federal investments in 1969, funding went directly to the facilities. I see us moving to directly subsidizing facilities, instead of families directly.

- Gina – when we're talking about who is caring for children, it's largely unlisted people who aren't even part of this conversation
- Herman – in FL providers get reimbursed and then charge the difference, increasing payment rates isn't going to generate more revenue for the provider – but makes it more affordable for families
- Gina – we \*think\* it'll change things, but it's not proven. May not change supply but may change access to supply

Jonathan – need to recognize the impact of wealth inequality and its impact. Median wages have stagnated, and more and more wealth is concentrated in the hands of a few. One thing we do have consensus on is that children regardless of birth should have opportunity. As private funding from families decreased, more public funding will be needed.

Given what we observe about families and ECE providers, can we expect the market to meet society's objectives, and what are the implications for policy?

- Depends on what we're trying to do. Not sure if supply side grants could work for relative care, for example. I worry as we try to simply and sell this concept, we're losing the nuance that parents need. We try to compartmentalize into different boxes. Going back to what Jonathan said, as long as there are limited resources we need to make choices. We need to center what parents need.
- Liz – some of our current policy centers parent choice (despite limiting it)
- Sally – right now, services and supports for home based child care are limited to licensed providers.
- Gina – LA, as long as you passed fire marshal inspection, can get child care support. Useful reminder that we need to support the unpaid people.
- Bobbie – low hanging fruit started during COVID. Break tie between employment and assistance.

#### 4. Brief Summary of Discussion

Audience discussion:

So: is it a market failure or priority failure? How do we address priority failure?

- Herman – have to identify the main thing, if we focus on education program it'll look different than if we focus on employment. Not choosing has us wasting resources on half measures.
  - Liz – earlier you said we need to be big and bold, is that not doing both things?
  - Herman – we should do both, but we can't get everyone on board with both at once, need to do one than the other
  - Is it a political failure?
  - Audience member – there are multiple funding streams, not just CCDBG, we can use them all together
- Audience member – should we focus on getting buy in?
  - Gina – this comes back to the issue of consensus.
- Audience member – workforce crosses political barriers better than education
  - Gina – COVID really brought the importance of child care to the forefront of people's minds
- Audience member – missing parent voice in this conversation
  - Jonathan – I tend towards priority side failure than market
    - One thing we can do as researchers is to build the evidence base on what this does for families
    - Need to involve mixed methods work
    - We need to look at the rules and restrictions of our systems regarding inclusiveness
      - Which are truly necessary for accountability? Which just have the effect of imposing our values, vs families/consumer values
- Audience member – many parents would probably say education happens during care
  - Herman – if our priority is enabling parents to work, we still want to provide quality services. But the priority would be providing services to enable the workforce. But focusing on educational priority, we could achieve that, but it would be improving educational quality for those who already have access to care and supporting the workforce would be an afterthought.
- Audience member – no matter what we do, the demand not met
  - We're okay with that with other goods, but it's different for parents
    - Example: if I'm unwilling to pay the price for a Tesla, no one cares. We care about child care.
  - What if we move to a K-12 system?

- Herman – NM example, make subsidy/voucher value available to many?
  - Audience member – so far, supply in NM hasn't moved. Eligibility is high, reimbursement rates are strong. Families have a voucher and no where to spend it. Wages haven't moved either. What are the chokepoints in the market? Example: people don't trust that the money will be there forever, so aren't reinvesting it in their workers/business
    - Gina - that's a rational choice to make
- Herman – some people intentionally keep rates low to help families, and need help to understand that they can raise rates – which may also raise questions from the state.
- Audience member – one place to look is states that have raised minimum wage. That includes child care worker wages.

**5. Summary of Key issues raised** (facilitators are encouraged to spend the last 3-5 minutes of sessions summarizing the key issues raised during the session; bullets below are prompts for capturing the kinds of issues we're looking for)

- Parents can act like consumers if they have enough supply, access, funds, etc.
- Positive externalities – child care provides more public good than the market itself may be willing to pay for
- Is our priority enabling parents to work? To improve educational quality of child care?