

CHILD CARE ACCESS: MARKET FAILURE OR PRIORITY FAILURE?

Panel Discussion led by

Liz Davis, University of Minnesota

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BREAKING THE NEWS

Why child care in MN is so expensive ... if you can find it

'Stressed and Desperate:' Behind Minnesota's Child Care Crisis

Child care providers in the state are doing what they can to boost wages and make the field more attractive to workers. But they face a tough financial reality.

Child care is pricing the middle class out of the middle class

The cost of care for one child in Minnesota for a year is at least \$10,000-\$12,000, and often thousands more, making it impossible to both pay for child care and basic essentials like housing and food for a family of three.

By Amanda Schillinger

Rural Minnesota child care shortage leaves parents with few choices

Hannah Yang New Ulm, Minn. March 6, 2023 3:55 PM



MPRnews SECTIONS MEMBERS MORE



ON AIR 0:00

Morning Edition with Cathy Wurzer

Education

Child care staff shortage forces some Minnesota centers to consider shutting doors

Peter Cox November 16, 2022 4:00 AM

Child Care Continues to be a Market Failure

BABY'S FIRST MARKET FAILURE

February 3, 2023, Planet Money NPR

By Sarah Gonzalez , Jeff Guo, Keith Romer , Sam Yellowhorse Kesler

Child Care Has Failed.

Analysis by Kathryn A. Edwards | Bloomberg. April 13, 2023. The Washington Post

The child care industry is a failed business model.

*WBUR Here & Now
January 26, 2022*

“Child care is a textbook example of a broken market...”

“The free market works well in many different sectors, but child care is not one of them. It does not work for the caregivers. It does not work for the parents. It does not work for the kids. And because it does not work for them, it does not work for the country.”

U.S. Treasury Secretary Janet Yellen, Sept. 15, 2021

<https://home.treasury.gov/news/press-releases/jy0355>

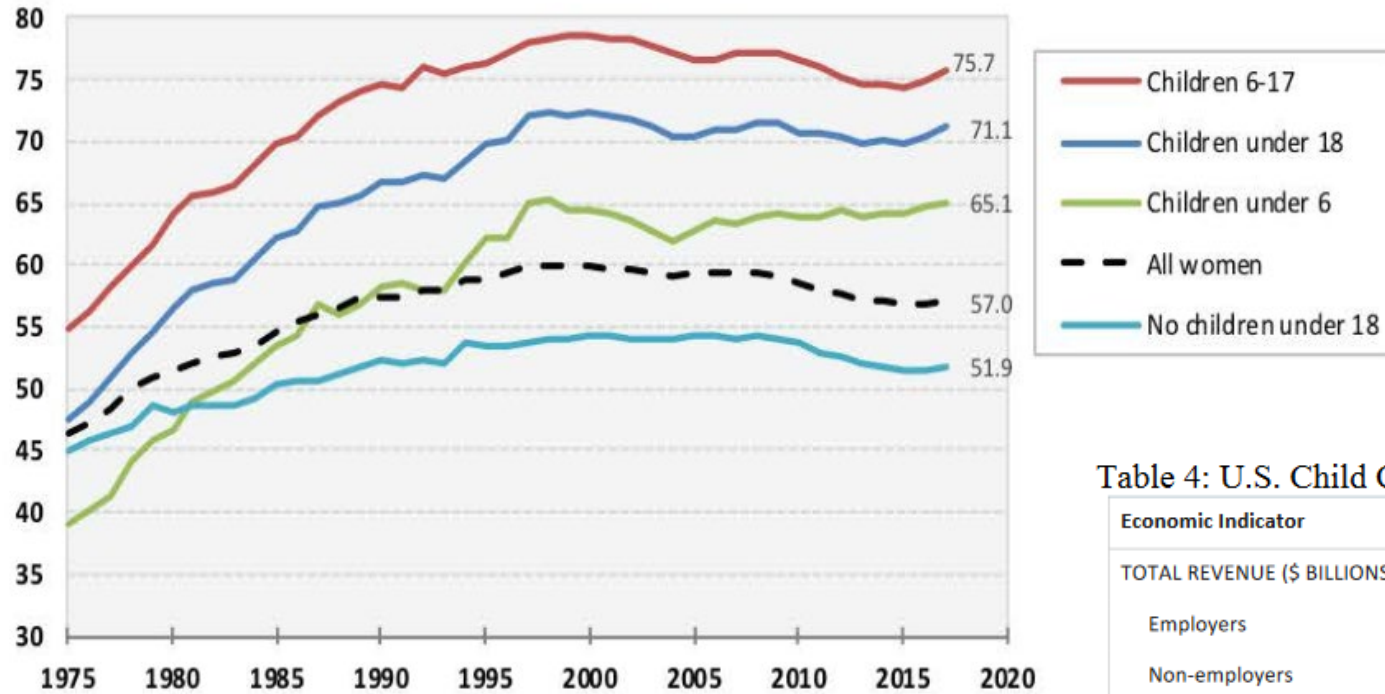


SESSION OVERVIEW

1. Introduction: Markets and market failure
2. Panel discussion of 5 questions
3. Audience and panel discussion

Objective of the session: Engage in conversation about what it means to say a market has failed, and generate deeper understanding of the characteristics of ECE that may lead to market failure, and the relevance for the ECE policy.

Figure 1: The Labor Force Participation Rate of Women with Children



Source: Bureau of Labor Statistics (Obtained from Committee for Economic Development (2019)).

What does it mean to say the market has “failed”?

The “market” has increased supply of care services in response to an increase in mothers’ employment.

Table 4: U.S. Child Care Industry Statistics

Economic Indicator	1997	2002	2007	2012	2016
TOTAL REVENUE (\$ BILLIONS)	19.0	28.8	38.6	41.5	47.2
Employers	14.2	21.8	29.7	32.0	38.2
Non-employers	4.8	7.0	8.9	9.5	9.0
NUMBER OF ESTABLISHMENTS	550,788	688,074	766,401	768,521	674,332
Employers	62,054	69,127	75,112	75,196	75,314
Non-employers	488,734	618,947	691,289	693,325	599,018
RECEIPTS/REVENUE PER ESTABLISHMENT (\$)	34,412	41,916	50,413	53,952	69,971
Employers	228,833	315,362	395,410	425,555	507,011
Non-employers	9,726	11,376	12,927	13,650	15,023
TOTAL EMPLOYMENT (JOB EQUIVALENT)	1,117,446	1,370,680	1,546,415	1,566,576	1,524,753
Employers	628,712	751,733	855,126	873,251	925,735
Non-employers	488,734	618,947	691,289	693,325	599,018

HAS THE CHILD CARE MARKET “FAILED”?

Around the nation, we see:

- Difficulties in finding care and waiting lists
- Shortages: Not enough slots and “child care deserts”
- Unaffordable: Prices high relative to family incomes
- Low wages: Child care workforce instability and stress; low compensation; high turnover
- Closings: Weak incentives for providers to operate and they have difficulty in finding and retaining qualified staff



ECONOMISTS' DEFINITION OF “MARKET FAILURE”

- In economics, *market failure* is a situation in which there is an inefficient distribution of goods and services in the market, therefore the distribution of resources can be improved upon from a societal point of view.
- Sources of market failure include
 - Externalities (positive social benefits)
 - Market control
 - Information failure
 - Liquidity constraints (limit how much parents can pay)

WHY DOES IT MATTER?

- If the market is “broken”, adding resources to a broken system may not yield the desired results
- Understanding why the market is broken (the reasons for market failure) can help design policies to overcome market failures
- Different visions for what the ECE system “should” look like or do may lead to different solutions to the broken market.

QUESTIONS FOR THE PANEL

1. What are society's objectives for early care and education (ECE), do we have consensus on these? How does lack of consensus affect policy?
2. Do families act like consumers in a market with regards to ECE services? If families had more resources, would they use more or different types of ECE?
3. Do ECE providers act like producers in a market? Will they produce services to meet families' needs?
4. To the extent that ECE demand and supply are like a market, do what extent are there market failures and regulatory failures (e.g., unintended consequences) that can be corrected by policy?
5. 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?