The Child Care Workforce Dilemma

A labor market evaluation of child care workers

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Child care workers protect, provide care for, and educate children when parents cannot. Despite their necessity to society, as of May 2020, the average child care worker was only making median weekly earnings of $537,[1] which was half of the average American wage earner ($1,009) and just slightly above the poverty line for a family of four ($504).[2] This dynamic is nothing new, as child care workers have long been low paid despite the important service they provide for their communities. Studies have shown that the general labor market is heavily dependent on child care access and that it is one of the largest factors for families when it comes to their employment decisions.[3] Despite the high cost of child care overall, child care workers have not seen their earnings increased or benefits expanded.

Why Are Child Care Workers Underpaid?

Although this is a contextual issue that differs from state to state, child care workers experience low incomes across the country. Vermont has the highest average child care wage for any state at $16.34 an hour[4] (it is $18.16 in the District of Columbia), which still falls under the first quartile for hourly earnings for the nation as a whole.[5] This, along with a lack of health insurance and paid sick leave[6] as well as irregular hours,[7] leaves many workers economically insecure.

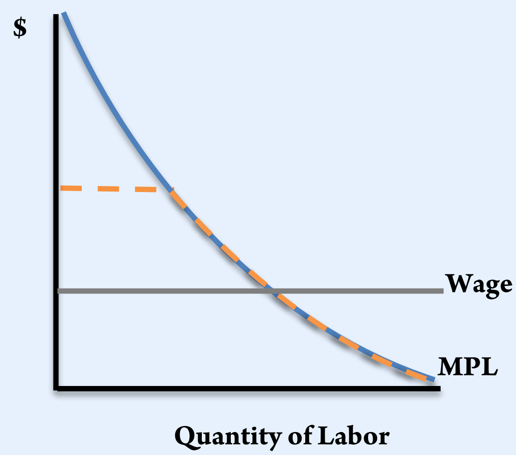

Figure 1. Relationship Between the Productivity of Labor and Wage Rate

There are several reasons for the subpar salary. The child care workforce is a field overwhelmingly staffed by women,[8] which has lower wages than those fields dominated by men.[9] This effect may be even further amplified because child caregiver has been a role women have historically been expected to do for free. This cultural bias in how the child caregiver role is perceived affects compensation, but there are other market factors for the humble wages at play.

Regulation

All states have different worker-to-child ratio requirements that are stratified by age. Depending on the state, the worker-to-child ratio ranges from one worker for every three children to one worker for every seven children when talking about children under 18 months, and this ratio is increased as the children they care for age.[10] In economics, the optimal level of employees (in an industry where capital cannot substitute labor) is where the money an additional worker brings (marginal revenue product of labor or MPL) is equal to the cost it takes to employ that person (wage). In this instance, regulations are capping the additional productivity to the amount of

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the ratio. Look to figure 1. Normally, the MPL will look something like the blue line. The area under the blue line and above the grey (wage) is the total amount of profit the firm makes. In this situation, the profit is instead the area between the orange dashed line and the grey line. This creates a deadweight loss, where the area between the orange dashed line and blue line represents profits that the firm loses out on. Without this deadweight, providers would have more money to play with, and may be able to increase wages (note, this would increase cost and decrease the level of labor used).

Though deregulation sounds like a tempting solution, the product in this case is not a good or a widget, but care for a delicate human child. The state of Michigan has one of the more restrictive worker-to-child ratios across ages groups (1 provider to 4 children under 3 years of age, 1:10 at 3 years, 1:12 at 4-5 years or older). In 2020 there were still over 200 serious injuries and 3 child deaths reported at Michigan child care facilities.[11] Deregulation or a reduction of this ratio would increase these rates, which would be unacceptable.

Costs

Child care is a labor-intensive industry. Providers report that 70%–80% of their operating costs are from staffing.[12] As it stands, the average child care provider operates on slim profit margins. With reduced profitability, a wage increase would then be a cost pushed on to consumers with higher prices. This is not desirable for owners as they already feel pressure to keep costs down from the informal market (unlicensed providers, family members, neighbors, etc). Many families already struggle to pay for child care, so not only is a rise in prices undesirable for consumers, increased pricing might actually lead to loss of business. Though the government does provide subsidies for families with low income, and these do increase access,[13] they are imperfect. In our 2020 Michigan market rate study, we found that subsidy rates are lower than the market rate at all age levels for child care centers, meaning families that are economically insecure still must pay for child care. This gap would only increase and put higher burden on disadvantaged families if prices rise.[14] Additionally, evidence seems to show that child care subsidies are not associated with increased wages for workers,[15] which implies workers do not see the benefits of a price hike in a subsized market.

Low Barrier to Entry

Though some states require child care workers to be licensed or have education beyond high school, most do not.[16] This, along with a lack of strong union, provides a low barrier to become a child care worker. With a more abundant and elastic labor supply, employers can rationalize stagnating wages under the guise that workers are easily replaceable. By having a higher barrier to entry, the labor force could impose further wage pressure by limiting supply. With that said, it is important to keep in mind that about half of workers in child care are BIPOC women[17] and increased credentialing or unionization may lead to undesirable consequences. This group of women currently makes significantly less money than their white counterparts overall,[18] and experiences barriers rooted in systemic racism that hinder access to high-wage employment. For this group, the risk of losing employment could make an already challenging economic situation even worse.

Implications

Low barriers to labor and costs of business are structural issues of the industry, and regulation is necessary. The market cannot fix the issue of pay alone without generating negative externalities. The solution requires government intervention.

Key Questions to Consider

- How much money should child care workers be making?
- Are there other benefits we could provide to improve child care workers' quality of life?
- Being that BIPOC women are a large portion of the workforce, what are their perspectives on the issue?
- How could helping child care workers help expand access to child care? How could it contribute to other economic goals, like business growth?

Suggested Practices and Policies

Study the labor market. A study of the child care labor market should be used to model the market to gauge supply of labor, as well as a study of businesses to gauge the demand. This would help to define how much child care workers should be paid and what to do to improve their employment.

Additional stipends or subsidy for child care workers. Subsidizing the workers directly would allow providers to keep prices reasonable for families, while also providing a living wage for the workers. Some states have already created programs such as WAGE$, TEACH, and INCENTIVE$ to reimburse child care providers and early educators.[19] The funding should, however, be equivalent to the need. Many of these programs do not give enough. The INCENTIVE$ program, for instance, gave an average of $1,169 dollars as a six-month supplement,[20] while WAGE$ maxes out at $3,000 dollars in annual supplements.[21] This is not nearly enough as $3,000 a year averages out to being only about an additional $57 per week, which is not enough to raise anyone out of poverty.

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