EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

THE CHAIRMAN

Jim, OK

December 5, 1997

MEMORANDUM FOR BRUCE N. REED
ASSISTANT TO THE PRESIDENT FOR
DOMESTIC POLICY

FROM: JANET L. YELLEN Janet L. Yellen

SUBJECT: Child Care Initiative

In follow-up to this morning's child care meeting, I wanted to write to emphasize my view on how the initiative should be structured.

Increasing the affordability of care for low-income working parents should be the priority of this initiative. Child care costs impose a substantial financial burden on this population, significantly reducing the return to work. We are currently subsidizing only about 1 in 10 of children below 200 percent of poverty whose mothers work.

Money to improve child care quality can best be spent on enforcement of basic health and safety standards and other state licensing standards, and on consumer education. Other initiatives to improve early learning would be most effectively designed as demonstration projects that would allow experimentation with different models for enhancing child development. The results would provide much-needed information about how best to promote early learning, and successful models could then be publicized to parents and communities.

cc Jim + Nicole
Chron file

9-8-97

'97 SEP 5 AM9:03

WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

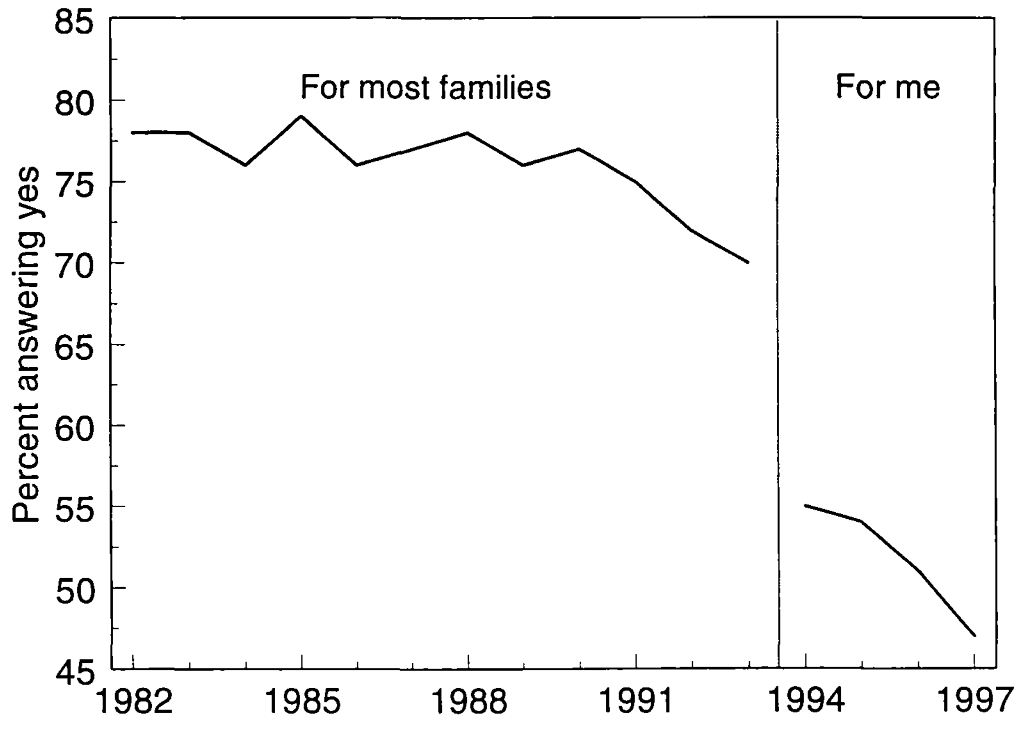
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

September 5, 1997

copied
to:
COS
HRC pages 4-
Yellen

CHART OF THE WEEK

Survey Question: Is the Stock Market Too Risky?



During the 1990s, and especially in the past few years, a declining proportion of Americans has thought the stock market is too risky a place to put its money. More than three-quarters of the married men surveyed thought the stock market was too risky for most families through most of the 1980s, but that proportion fell to 70 percent by 1993. The survey question was changed in 1994, but the number of married men responding that the stock market is too risky for them has continued to fall. Responses for women show a similar pattern.

9-8-97

Sec: HRC

SPECIAL ANALYSIS

Welfare Reform and the Market for Child Care

As more mothers move off welfare into work, the demand for child care services will increase. Although the supply of child care services is likely to expand to meet this demand without much of a price increase, the cost of child care, even at current prices, represents a large burden for low-income families.

The supply response. Two strands of evidence suggest that increased demand can be met without a substantial increase in the price of child care. First, over the past 20 years, the number of children in paid child care has approximately doubled while the real price of care has not changed. Second, a recent study indicates that changes in the price of child care induce large supply responses. Of course, an initial surge in demand could produce some short-run upward pressure on prices. The cost of entering the child care provider market is relatively low, however, and supply should respond relatively quickly.

The burden of current prices. The current cost of child care can be a significant burden for those without access to subsidized care and may discourage some mothers from working. Among families who pay for child care, poor families with employed mothers spend about 20 percent of their income on child care, while non-poor families spend only 7 percent. Estimates from several studies suggest that a 10 percent reduction in the price of child care increases the probability that a mother will work by 2 to 8 percent. Given that the mother has a job, however, the price of child care does not appear to influence the number of hours worked.

What kind of care? About half of working mothers rely primarily on non-market child care provided by a relative. Studies show that a reduction in the price of child care is associated with an increase in the probability that a working mother will purchase paid care. This may be because those mothers who choose to work when the price of care decreases are more likely to use paid care; also, those already working may choose to substitute paid care for non-market care. Once the decision is made to use paid child care, however, reductions in the price of care or in the price of higher quality care do not appear to induce parents to purchase higher quality care.

Implications. Increased demand for child care will most likely be met by commensurate increases in supply at roughly current prices. However, if they must pay the market price for child care, many low-income parents find child care costs a barrier to employment and a substantial financial burden if they do take a job. Policies that decrease the price of care reduce this burden and encourage more mothers to work; they may also lead working mothers to switch from unsubsidized to subsidized care.