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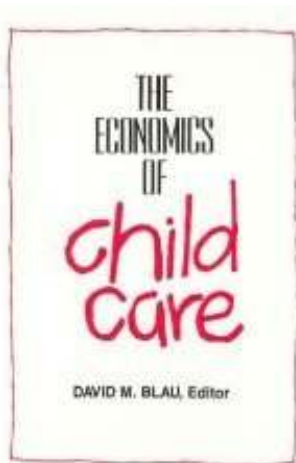
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[The economics of child care: Why do long waiting lists persist?](#)

By [Chad Skelton](#) 10 Mar 2010 [Parenting: Curious Dad](#)



I've written before about the difficulties parents - including me -- have had in [finding child care](#). But, in addition to the frustration caused by the child-care shortage, it also puzzles me.

[Economics](#) is one of my pet interests and I've talked to enough smart economists to have a rough idea of how supply and demand works. And every time I look at the situation with child care, it make me wonder: Why isn't supply and demand working here?

If we were talking about any other consumer product -- laptop computers, HDTVs, minivans -- the forces of supply and demand should, over time, solve the problem of scarcity.

If there aren't enough laptop computers to meet demand, the price of laptops goes up, which encourages more manufacturers to make them, which -- over time -- meets the demand and then causes prices to drop again.

So why doesn't that work with child care? I've heard one of the reasons there isn't enough child care is that child-care workers are badly underpaid. Fair enough. But, again, if there's a severe shortage of child-care spots, that should push the price of child-care up, which in turn should allow child-care providers to pay higher wages to attract more child-care workers and meet the demand.

Now, unlike some consumer products, presumably there is a ceiling to the price of child care because people wouldn't be willing to pay more in child care per month than they can make working -- otherwise they might as well just stay home.

But there are plenty of professional or semi-professional men and women out there who could afford more than the \$1,000/month most facilities currently charge.

Anyway you look at it, then, the "market" for child care seems to be broken.

Looking for answers, I turned to someone I thought should know the answer: David Blau, an economics professor at Ohio State University and editor of the book "[The Economics of Child Care](#)".

Blau said the main reason daycare providers don't respond to scarcity by jacking up prices and offering more spaces is that most aren't operating like normal businesses:

The most likely reason for long waiting lists is that the highest quality preschools tend to be not-for-profit, and they face different incentives than for-profit firms. For example, they may use subsidized space (e.g. a church basement), and would find it very costly to expand capacity. There may also be pressure to keep fees relatively low rather than charging what the market will bear; for example if parents are on the board of directors, they may act as insiders for the benefit of current attendees. Also, subsidizers such as churches, firms, and social agencies may require low fees. Non-profits pay higher wages than for-profits, so additional revenues may go toward increased pay, rather than capacity expansion.

But that still leaves the question of why for-profit companies don't jump into the market to fill the gap. Here, Blau said, the culprit is us the parents: most of us simply aren't willing to pay a premium for high-quality child care:

I've done some research on this, and have found that despite the difference in quality on average between non-profit and for-profit child care, it is feasible (i.e. there are examples) for for-profits to produce high quality care. Why don't they do it much? My evidence suggests lack of willingness to pay by parents, something you suggested. Well-educated parents generally have a strong willingness to pay for high quality care, but the average American household does not. The relatively few high quality for-profits tend to be in affluent areas.

All of which suggests that the long waiting lists for daycare spots aren't likely to go away anytime soon. My thanks to Prof. Blau for taking the time to answer my questions (which he actually did a few months back -- I've just been too busy with other topics to get them up on the blog).

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