Child day care services: an industry at a crossroads

Although employment growth in this industry is projected to be among the fastest in the economy over the 1988–2000 period, the rate of growth should slow as demographic pressures ease

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The continued entry of mothers of preschool and school-age children into the labor force is directing new attention to the subject of child care. In addition to concerns about the availability, cost, and quality of child care, questions also have been raised about the role of government in the provision of such care and about the advisability of having someone other than a parent raise the Nation's children. Moreover, expectations of future tight labor markets, skill shortages, and lagging international economic competitiveness have provoked a dialogue on the relationship between the availability of suitable child care and a parent's productivity in the workplace.

The focus of these concerns is an industry primarily providing care for infants, prekindergarten or preschool children, or older children when they are not in school.[1] Generally, today's child care arrangements fall within one of two categories: Family day care—care that is provided informally in the parent's or caregiver's home—and formalized day care centers. The latter include for-profit facilities and not-for-profit facilities run by State and Federal Government agencies, religious institutions, or community organizations.

This article discusses the structure of the child care services industry, its historical and projected employment trends, and factors underlying the growth of the industry, including employment shifts among different types of care providers. It also discusses the degree of government involvement and identifies some of the reasons why the future direction of this industry is so difficult to predict.

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Structure of the industry

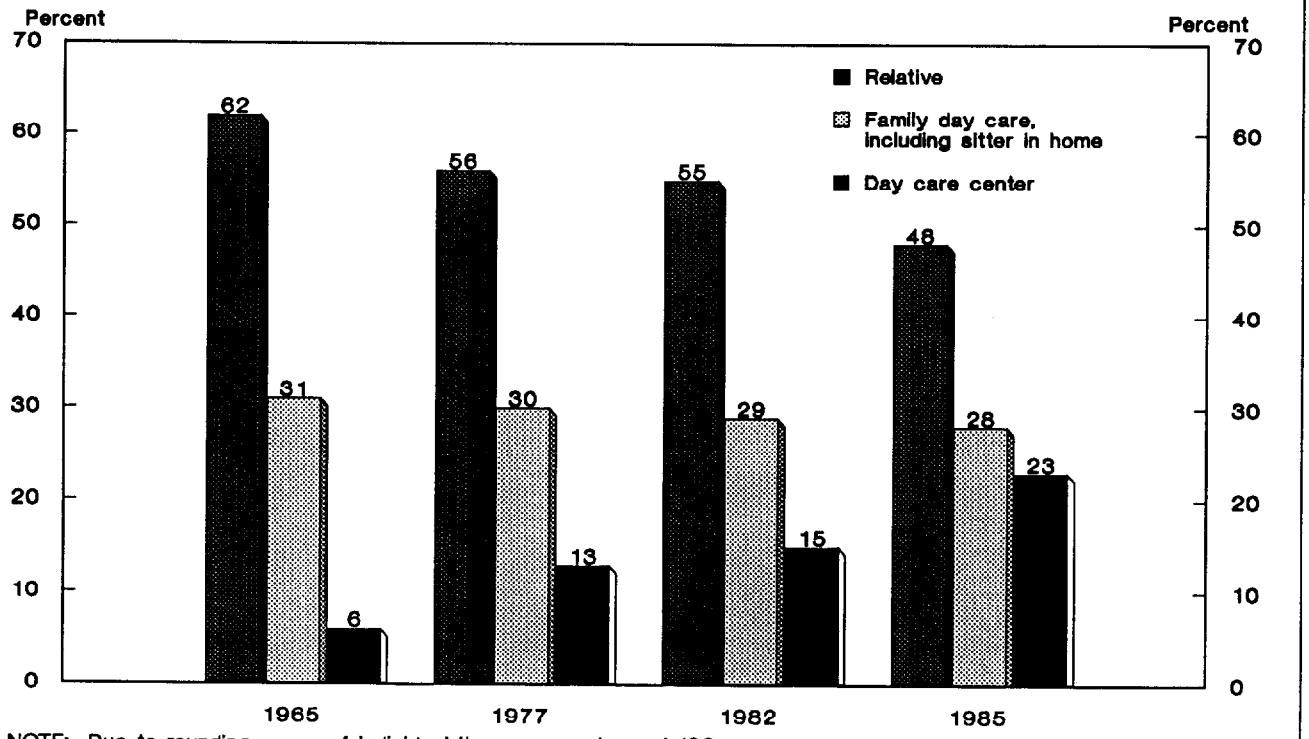
Child care needs vary widely, depending on the specific circumstances of each family. In many families, both parents are employed, either full or part time. In others, single parents must juggle the responsibilities of work and family essentially alone. Still other families must deal with shiftwork or unusual work hours. Parents with infants and preschool children must arrange for care during the entire time they are away from home. By contrast, older children, who spend much of the day in school, may only need care before and after school while their parents are at work.

Requirements for child care are met in many ways. The following tabulation, based on data collected by the Bureau of the Census in the winter of 1986–87, shows how day care outside of school hours was provided for children under 15 years of age whose parents were working:[2]

	Percent of children
Total	100.0
Family day care	47.0
Care by relative	31.7
Care by unrelated person	15.3
Day care center	11.5
Parent cares for child while working	6.1
Child cares for self	35.4

Family day care was the most prevalent arrangement. In its most common form, a grandparent or other relative cared for the child while the parents were working. This type of care is

Chart 1. Percent of preschool children in day care, by type of arrangement, 1965–85



NOTE: Due to rounding, sums of individual items may not equal 100.
SOURCE: Sandra L. Hofferth, "What Is the Demand for and Supply of Child Care in the U.S.? Testimony before the House Committee on Education and Labor, Feb. 9, 1989 (Washington, The Urban Institute).

popular for several reasons. Parents apparently are more comfortable leaving their children with relatives than with strangers. In addition, it is relatively easy to arrange, eliminating the need for a lengthy search for a suitable caregiver. For many parents, this kind of arrangement is a financial necessity; many people care for the children of close relatives as a favor, making no charge or charging less than market rates.

The other type of family day care arrangement was care provided by an unrelated person, generally in the caregiver's home. This frequently is a mother caring for her own children who takes in one or two other children from the neighborhood.

Center-based care served about 1 of every 8 children under the age of 15 with a mother in the labor force. About 60 percent of all day care centers are operated for a profit, as independent businesses or as part of a local or national chain. Nonprofit day care organizations account for the remaining 40 percent.[3] Sponsors of the latter include churches, YMCA's, colleges, employers, public schools, social service agencies, and governments.

The census data indicate that, in 1986–87, 4 in every 10 children received no formal care while their parents were at work. The majority of these children, commonly called "latchkey kids," were totally unsupervised before or after school. The remainder were cared for by a working parent, either at home or at the job.

Government involvement

Support. Federal, State, and local governments are actively involved in expanding the availability of child care. Government-operated early childhood programs are the most visible manifestations of this involvement. The best known of these programs is Head Start, a Federal day care program established to provide disadvantaged children with social, educational, and nutritional services. It operates in every State, and serves an estimated 450,000 children, approximately 1 in 5 of all those eligible. Eligibility is determined by a family's income and Federal poverty guidelines. The program enjoys strong political support and is viewed as one of the most successful of all educational or antipoverty programs.

Many States and localities operate or fund programs similar to Head Start. In addition, all States now offer various child care services, such

as training for child care providers and resource and referral systems for parents seeking child care.

The Federal Government and 29 States subsidize child care through tax credits or deductions for parents, and 8 States and the Federal Government allow tax credits or deductions for employers who provide child care assistance to their employees.

Funding of State assistance to low-income families, provided by Federal Social Services Block Grant (Title XX) funds, enables States to help meet the child care needs of low-income working parents, parents enrolled in educational or training programs, teenage parents, and children receiving other protective services. Eight States supplement Head Start funding to expand the program and three States also operate programs to promote school readiness. In addition, several States have established before- and after-school child care programs in public schools.

The Child Care and Development Block Grant, which President Bush signed into law in November 1990, provides additional grant money to the States to improve the quality, increase the availability, and reduce the cost of child care. In addition to the funds that the States will allocate to parents and to care providers, the legislation stipulates more generous Federal income tax credits for child care expenses for low-income families.

Regulations. State government is an important player in the child care services industry because of licensing regulations that set staff qualification standards and mandate child/staff ratios. In more than half the States, family day care is regulated. The remaining States either do not require licensing or exempt smaller day care situations from coverage.

Center-based care is regulated in all States, but standards vary among the States, especially with regard to staffing requirements. Most States have established maximum child/staff ratios, which vary by State and by the age of the children involved. Minimum educational or training requirements for staff also are established by most States. In many States, directors of day care centers must have a college degree, often with specific training in early childhood development, as well as experience in the field of child care. Generally, teachers must have a high school diploma and, in many cases, a combination of relevant college education and experience. Most States require assistants, aides, and volunteers to have a high school diploma. In most cases, a minimum age of 18 is required for teachers, with a minimum age of 21 for directors or officers. In several States, assistants and aides may be employed at age 16, and in at least three States, at age 14.

Table 1. **Employment of wage and salary workers in the child day care services industry, by occupation, 1988**

Occupation	Employment	
	Number (in thousands)	Percent distribution
Total, all occupations	406.2	100.0
Executive, administrative, and managerial occupations	32.3	8.9
Education administrators	13.6	3.4
General managers and top executives	12.9	3.2
Accountants and auditors	1.3	.3
Professional specialty occupations	170.2	41.9
Social workers	3.5	.9
Teachers, preschool	154.9	38.1
Administrative support occupations	90.0	22.2
Bookkeeping, accounting, and auditing clerks	5.3	1.3
Secretaries	5.1	1.3
General office clerks	2.1	.5
Teacher aides and educational assistants	75.3	18.6
Service occupations	102.4	25.2
Janitors and cleaners	9.3	2.3
Chefs, cooks, and other kitchen workers	19.1	4.7
Child care workers	70.6	17.4
Operators, fabricators, and laborers	5.8	1.4
Bus drivers	5.5	1.3

Many States also require other types of training for staff members, in such fields as health and first aid, fire safety, and child abuse detection and prevention. Except in six States, licensing regulations require criminal records checks for all child care staff. This screening requirement is designed to prevent child abuse and reduce liability risks, making it easier and cheaper for centers to obtain adequate insurance. Some States also have established qualifying requirements for other day care center personnel, such as those involved in preparing food, transporting children, and providing medical and other day care services. The new Child Care and Development Block Grant requires that any care provider receiving grant money meet minimum State health and safety standards, including immunization to prevent the spread of infectious diseases.

Care provision. Many Federal, State, and local government agencies sponsor day care centers for their employees; more than 50 centers operate in Federal buildings around the country. For the U.S. Department of Defense, providing

child day care is another way to recruit and retain high quality personnel. Ninety-six thousand children at more than 400 U.S. military bases around the world attend Federally subsidized centers, at a cost to their parents of $40 to $60 a week.

Business-community partnerships also have become quite common in the child care industry. California communities have developed the most far-reaching program in the country. The California Child Care Resource and Referral Network has trained more than 1,200 new family-care providers in 70 communities and has created at least 6,000 additional spaces for children. The Bank of America Foundation raised $3 million for the project, largely from contributions from private foundations and more than 33 companies.

Industry employment

An estimated 518,000 workers were employed in the child day care services industry in 1988, 406,000 on the payrolls of child care establishments and 112,000 self-employed workers.[4] It is assumed that most of the self-employed are family day care home providers, although some undoubtedly are self-employed managers of organized centers. This employment estimate, however, understates the total number of people providing day care because care given by relatives may not be counted, and because it is likely that many other family day care providers are exempt from State licensure laws. Others may choose to operate without a license to avoid the burden of licensing and taxation, and would not, therefore, be included in the estimates. In addition, workers providing day care in establishments in other industries are counted as employees of the industry on whose payrolls they are found. For example, teachers and other workers who provide day care after regular school hours are included in the count of employees in the educational services industry.

Table 2. **Employment in the child day care services industry, 1976–88, and projected 2000**

[In thousands]

Year	Total	Wage and salary workers	Self-employed workers
1976	239	215	24
1977	(1)	245	(1)
1978	(1)	285	(1)
1979	348	303	45
1980	(1)	299	(1)
1981	(1)	292	(1)
1982	345	290	55
1983	355	298	57
1984	389	312	77
1985	413	336	77
1986	435	354	81
1987	479	372	106
1988	518	406	112
2000	(1)	547	(1)

[1] Data not available.

Occupational profile. The occupational distribution of wage and salary workers in the industry is presented in table 1. Given the personal interactions inherent in child care, it is not surprising that preschool teachers and child care workers account for more than one-half of wage and salary employment. The share of industry employment held by these two occupations has remained constant over the years.

Historical trends. Employment in the child care services industry increased 117 percent between 1976 and 1988, nearly four times faster than total employment in the economy. (See table 2.) Although wage and salary employment almost doubled, from 215,000 to 406,000, the number of self-employed child care providers grew even more rapidly, increasing more than threefold, from 24,000 to 112,000.

Factors underlying trends. The industry's rapid employment growth from 1976 to 1988 stemmed in large part from the demand for services generated by demographic trends. Table 3 shows that, from 1976 to 1988, the number of women of childbearing age (widely considered to be ages 20 to 44) in the population increased from 38.1 million to 49.0 million. In addition, there was a significant rise in their labor force participation, from 59.5 percent to 73.6 percent. Consequently, the number of these women in the labor force increased by about three-fifths, or 13.4 million. Significantly, one-third of them (4.6 million) had children young enough to require some type of child care. As a result, the number of additional children requiring care because their mothers worked rose by 9.1 million, from 19.2 to 28.3 million. The greatest growth rate was among children under age 5, who still require daylong care. (See table 3.)

Changes in industry structure. Efforts to meet this rising demand have resulted in changes to the structure of the industry, with relatively less growth in family day care homes and more in center-based care. Chart 1 illustrates these trends: care by relatives fell sharply between 1965 and 1985, family day care stayed fairly constant, and center-based care increased dramatically.

Child care by relatives has declined for a variety of reasons. Increased geographic mobility has

made it less likely that parents of young children have family members living nearby. In addition, many older people, currently healthier and more affluent than earlier generations, apparently prefer a more independent lifestyle, which can be incompatible with child care commitments. The decline in availability of care by relatives and the inability of family day care home providers to keep pace with demand—most care for only a few children—has resulted in a greater emphasis on center-based care.

Day care centers tend to have higher child-to-staff ratios and better equipped facilities than family day care arrangements, thereby meeting the needs of more children. Organized day care centers have average group sizes of 7.1 infants (under 1 year old), 9.6 toddlers (1- and 2-year-olds), and 13.5 preschoolers, whereas family day care providers generally care for only two or three children at a time.[5]

Much of the growth in center-based care has occurred in the for-profit sector of the industry. This sector includes those day care centers that are independently operated or are part of a local or national chain. In the 1980's, the number of these centers grew at an estimated rate of 10 to 12 percent per year.[6] The share of total enrollment accounted for by for-profit centers rose from 37 percent in 1977 to 51 percent in 1988.[7] By keeping their operating costs low and by providing the types of learning programs that many parents want for their children, many of the large for-profits enjoyed marked success in the 1980's.

The nonprofit sector grew at less than half the rate of the for-profit segment in the last decade. In 1977, 6 out of every 10 centers were nonprofit; today, that proportion is 4 of every 10.[8] This development primarily reflects the decline, in real terms, in Federal support for child day care services over the last decade. The major exception is Head Start, which has consistently been funded with modest annual increases. The only other developments during the 1980's that tended to promote the growth of child care services were provisions of the tax code that benefit middle-income families with child care expenses—the Dependent Care Tax Credit—and a trend toward employer-sponsored Dependent Care Assistance plans.

As a result of Federal cutbacks, States have had to assume an expanded role in child care support. Only a few States have been able to increase their overall funding of child care by an amount sufficient to offset the loss of Federal dollars. The remainder have had to implement smaller child care budgets.[9] As a result, overall government funding as a proportion of total revenues of the child care services industry dropped from 29 percent in 1977 to 17 percent in 1988.[10]

Nonprofit organizations, faced with a loss of government subsidies, have been forced to broaden their financial base and to operate more cost-effectively. Many now are offering new services and striving to attract new customers. In the past, nonprofit centers cared for many children from low-income families. To a great extent, this is still true, as Head Start—a major funding source—is targeted toward poor families. Increasingly, however, nonprofit and for-profit organizations are competing for customers in the same market.

In recent years, notable growth has occurred in the incidence of employer-provided day care. According to the Conference Board, only 110 employers provided some kind of child care support in 1978. This number grew to 600 by 1982; 2,000 by 1984; 2,500 by 1985; and 3,500 by 1988.[11]

A 1987 BLS study of employer-sponsored child care benefits found that about 25,000, or 2 percent, of all establishments with at least 10 employees sponsor day care centers; an additional 3 percent, or 35,000 establishments, provide some type of financial assistance for child care; and three-fifths of all establishments had some practice that benefits working parents, such as flexitime, part-time work options, and flexible leave policies.[12]

The growing involvement of employers in addressing the child care needs of their employees may be attributed to several factors, including overall economic growth that boosted demand for labor, the nontaxability of child care as a benefit, the public relations value of child care benefits to the organization, and the rise in women's share of the labor force. Corporations are increasingly willing to become involved in child care for other important reasons as well. First, there is a growing concern about the welfare of America's children.[13] Second, worker attitudes and values are changing. Men and women in two-career or single-parent families view employer-sponsored child care assistance in the workplace as a way to accommodate both family and work responsibilities. And third, there is increasing evidence that inflexibility in the workplace regarding family responsibilities has an adverse effect on productivity. For example, the U.S. Department of Health and Human Services funded a 1978–81 study of 415 hospitals and mid-sized companies that had recently established child care programs. The study found that better child care arrangements resulted in improved morale, enhanced ability to recruit quality employees, lower turnover, and less absenteeism.[14]

States have assumed an expanded role in child care support.

As a result of increasing employer support for child care, for-profit organizations focusing on opening centers for employers and in office parks

try is the concern about this country's productivity and international economic competitiveness. Because there is growing acceptance of the benefits of adequate child care for the productivity of working parents, employer involvement in providing day care should continue. With concerns about tightening labor markets in the future, employers should increasingly recognize that the lack of child care is a major barrier to the entry of women to the labor force.

Changes in the for-profit sector of the child day care services industry also are likely to have a marked effect on future growth. First, economic constraints are expected to tighten. These include the sensitivity of demand for child care services to changes in price, a potential labor shortage of child care workers, more stringent government licensing requirements, and the difficulty and cost of developing new sites.[20] In addition, stiffer competition might result from the rapid expansion of national chains and new operations, leading to an oversupply of day care services in many urban areas.

Uncertainties. As indicated above, the analysis of future employment trends points to rapid growth of the child care services industry through the year 2000, but at a much slower rate than that posted since the mid-1970's. However, the ways in which several issues are ultimately resolved could have a marked impact on future growth. Of major significance is the effect of the recently enacted child care block grant program. It is difficult to assess how this program will affect future employment trends in the industry.

The availability of workers to fill positions in the child care industry poses another uncertainty in the analysis of future employment growth. To date, low wages have led to high turnover in the industry and to a shortage of workers in some areas. Solving turnover problems might entail paying higher wages, which in turn could raise costs of day care, thereby reducing its affordability and restricting industry growth.

Analyses also suggest that the number of employers offering their workers child care benefits will increase in the years ahead. The number of companies that will actually follow through by opening day care facilities of their own, however, is difficult to estimate. Researchers from the Families and Work Institute have found that start-up and operating costs are the primary issue affecting an employer's decision to create a child care center. Site selection and building requirements are second in importance, followed by problems associated with obtaining liability coverage.[21]

Future growth in the employer-sponsored day care sector will inevitably depend on the willingness of companies to work around these barriers. Creativity will be needed to devise new types of day care programs and to minimize various start-up and operating costs. To keep costs as low as possible, many companies are initiating consortium programs, in which a center is supported by several companies that share expenses, risks, and benefits. However, the extent to which these initiatives will continue is subject to great uncertainty.

IN SUMMARY, employment in the child care services industry is likely to continue to grow rapidly, but at a slower rate than in the recent past. In addition, day care centers should experience more rapid growth than family care providers. However, uncertainties about the future expansion of employer-provided child care benefits and the impact of new legislation render these employment projections somewhat tenuous. □

Footnotes

[1] The child day care services industry is classified as SIC 8351 in the *1987 Standard Industrial Classification Manual*, published by the U.S. Office of Management and Budget.

[2] Estimates are the author's computations, based on data presented in tables B, 5, and 6 of *Who's Minding the Kids? Child Care Arrangements: Winter 1986–87, Current Population Reports, Household Economic Studies*, Series P–70, No. 20 (Bureau of the Census, 1990), pp. 3, 18–19. These findings were virtually identical to the results of a 1984–85 study which used the same methodology.

[3] Roger Neugebauer, "Status Report # 1 on Non Profit Child Care," *Child Care Information Exchange*, April 1990, p. 20.

[4] This article uses two primary data sources. The Bureau of Labor Statistics establishment survey provided estimates of wage and salary employment for the industry. The Current Population Survey (CPS) provided data on self-employed workers.

The fact that there are many different settings in which child day care is provided creates problems of underestimation that are unique to this industry. For example, the ES–202 data—the universe from which the BLS establishment survey sample is drawn—generally includes all establishments with one or more employees, but there are some exceptions. Centers operated under the aegis of religious institutions have the option not to participate in the State-administered Unemployment Insurance program. Those choosing not to participate are excluded from the establishment universe.

Another measurement problem that adds to a potential undercount in this industry is the classification of day care centers in other industries. This occurs when a center is classified according to the industry of the sponsoring organization. For example, a center operated by an accounting firm would appear in the statistics for SIC 893—accounting, auditing, and bookkeeping services—instead of SIC 8351—child day care services. This is also a significant problem with regard to religious organizations and schools, both of which operate a large number of child care centers. For these and other, more technical reasons, the child day care data series from the establishment survey is not regularly pub-

lished by BLS.

[5] "The National Child Care Staffing Study," *The Child Care Employee Project*, 1989, p. 13.

[6] Roger Neugebauer, "How's Business? Status Report #6 on For Profit Child Care," *Child Care Information Exchange*, February 1990, p. 31.

[7] "The National Child Care Staffing Study," p. 13.

[8] Neugebauer, "Status Report # 1," p. 20.

[9] "Old Baggage, New Visions: Shaping Policy for Early Childhood Programs," *Phi Delta Kappan*, May 1989, p. 667.

[10] "The National Child Care Staffing Study," p. 11.

[11] Neugebauer, "Status Report # 1," p. 20.

[12] See Howard V. Hayghe, "Employers and child care: what roles do they play?" *Monthly Labor Review*, September 1988, p. 38. The large discrepancy between the Conference Board estimates and those from the BLS survey reflect conceptual differences in study design. The BLS sample included nonprofit agencies, many of which were day care centers, and used the establishment as the unit of measurement. The result was that a large employer, comprising many branches or divisions, that had implemented a corporate policy on support for child care would have been counted many times. Despite the differences, both the Conference Board and the BLS data indicate that only a relatively small number of employers are providing child care assistance.

[13] Fran Sussner Rodgers and Charles Rodgers, "Business and the Facts of Family Life," *Harvard Business Review*, November/December 1989, p. 121.

[14] See Lisa R. Cole, "Child Care and Business," *B&E Review*, January–March 1989.

[15] Neugebauer, "How's Business?" p. 31.

[16] See "Employer Centers and Child Care Liability Insurance," *Report of the Secretary of Labor* (U.S. Department of Labor, December 1989), p. 15.

[17] *Ibid.*

[18] Howard N Fullerton, Jr., "New labor force projections, spanning 1988 to 2000," *Monthly Labor Review*, November 1989, p. 3.

[19] "Old Baggage," p. 667.

[20] Neugebauer, "How's Business?" p. 31.

[21] "Employer Centers and Child Care Liability Insurance," p. 67.

Employed mothers

While the nature of the labor force changes as a function of growing maternal employment, family life is undergoing a corresponding shift in organization and definition. Marriages are being transformed from a complementary relationship, in which husband and wife perform different but interdependent tasks, to a parallel relationship in which both spouses are employed and both share the domestic responsibilities for home and children. Domestic role-sharing is thus far limited; some see that as a cultural lag that in time will disappear. Changes in family roles undergird still more pervasive changes in societal attitudes regarding the proper roles of men and women. These trends in the labor force, in family life, and in gender-role prescriptions can be expected to have consequences for the emotional states of the men and women experiencing them.

—Phyllis Moen

Working Parents: Transformations in Gender Roles and Public Policies in Sweden (Madison, University of Wisconsin Press, 1989), p. 35.