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### **The Hidden Costs of Child Care**

Mariano Torras, Ph.D.  
Adelphi University  
Garden City, NY, 11530  
USA  
516-877-4644  
[torrasm@adelphi.edu](mailto:torrasm@adelphi.edu)

Over the past six decades, there has been a dramatic increase in US labor force participation rates. While less than 56 percent of the adult population was in the labor force in 1946, the number had climbed to 67.1 percent by 2000. As recently as 1973, only 44.7 percent of women were labor force participants, compared to more than 59 percent in 2000 (Bureau of Labor Statistics). The change has led to a slow but steady growth in the child care industry, as many families with young children have two working adults. More than half of US mothers with children under six years of age are in the work force, with the young pre-school children in private day care facilities.

Why the change? While nobody suggests that parents are less interested in children than they once were, the trend illustrates that childrearing decisions are not immune to economic tradeoffs that often lead families to make sacrifices. Decades ago, there was relatively little in the way of professional opportunities from women or, more important, that was the general perception. Consequently, the expected benefit of leaving the home in search for employment seemed, to most families, difficult to justify. But with more women than ever not only in the labor force but enjoying rewarding careers in education, business, and the sciences (among other industries), the perceived benefit of leaving the home became greater and more tangible. In the language of economics, the **opportunity cost** of staying home with the kids had become too high. With the concomitant growth in access to private child care services, the move to two wage-earner families seemed increasingly attractive.

Today there are nearly 10 million working US women with at least one child under six years of age, many of who avail themselves of such services. Unfortunately, there is growing evidence that leaving children, especially the very young, in the care of professionals for prolonged periods may be psychologically harmful. Belsky (2001) has found that extensive nonmaternal caused a greater likelihood of insecure infant-parent attachment and promote aggression and noncompliance later in

childhood. Economists Baker *et al.* (2008) find that increasing maternal workforce participation makes children worse off according to measures of aggression to motor and social skills to illness. Robertson (2003) obtains similar findings. Others, for example Ermisch and Francesconi (2001), find that children with whom mothers spend less time during their pre-school years tend, later in life, not to do as well academically.

On the face of it, it appears that one type of cost (the opportunity cost of staying at home) has been swapped for another. While clearly less tangible, the psychological harm (or “cost” in economics parlance) is no less important. But how are we to determine whether the tradeoff is justified? Should more families be encouraged to spend time at home during their children’s formative years? Which model – day care or home care – can we say promotes the greater good? Is there any way to employ economic analysis to demonstrate that there is a net benefit that might offset or exceed the psychological cost? In what follows, I will briefly discuss the manner in which conventional economic analysis addresses the problem, after which I will list several shortcomings to such an analytical approach and then offer some concluding thoughts.

Conventional microeconomic approaches often resort to cost-benefit analysis to address such questions. Such any analysis would require a balancing of relevant costs and benefits, and the presence of a “net benefit” (that is, total benefit exceeding the total cost) implies that the plan or project (here the decision to send a child to day care) is warranted. Unfortunately, there is an inherent bias in economic analysis against the so-called “intangibles,” or values difficult or impossible to measure. As remarked by Pearce in a discussion of deforestation:

Typically, development benefits can be fairly readily calculated because there are attendant cash flows... Conservation benefits, on the other hand, are a mix of associated cash flows and ‘non-market’ benefits. Components with associated cash flows are made to appear more ‘real’ than those without such cash flows. ...[D]ecisions are likely to be biased in favor of the development option because conservation benefits are not readily calculable...Unless incentives are devised whereby the non-market benefits are ‘internalized’... conservation benefits will automatically be downgraded ...This ‘asymmetry of values’ imparts a considerable bias in favor of the development option (Pearce, 1991, p. 242-243).

His reasoning applies for any instance where a problem involves both quantitative and qualitative measures. Curative medicine, for example, generates immense profits for the economy (measureable), but preventive medicine (in the form of healthy eating, yoga, an exercise regimen) does not, so it does not figure as a benefit. Academic performances – directly measureable – count, while a child’s emotional needs – which are not quantifiable – take on less importance. So along similar lines, parental

upbringing of children simply does not count. If it somehow produced a *tangible* economic benefit, it would. But it does not.

Fortunately, over the past two decades the economics profession has gradually yielded to pressure to include values not directly associated with market transactions. There are of course many other instances of such values not related to child care. Examples might include ecological damage resulting from local water pollution, or the statistical risk to human lives resulting from a municipality's decision not to invest in hurricane protection. Suffice it to say that there is an abundant literature on accounting for such values, mostly related to environmental economics, which is beyond my scope here. What would be required for our purposes is something similar; some way of estimating the monetary value of the psychological and developmental harm done to the children as a result of prolonged exposure to child care (I will hereafter refer to this as the psychological cost). Such estimates are critical for a "social" cost benefit analysis that accounts for both the benefits and costs of child care.

Yet even from the standpoint of social cost-benefit analysis, we have a seemingly intractable problem. While it is not difficult to estimate the average gain from the decision to send one's child to child care (in dollars), how can we obtain a dollar estimate of the value of the psychological cost? We need to begin by asking to whom the cost accrues. Obviously the affected child suffers, but it would be reasonable to add to this cost the indirect effects on, say, family harmony. Moreover, a maladjusted child has the potential to inflict direct or indirect harm on society at large, particularly during adulthood. Such an effect can take a variety of forms, among which are greater dependence on others or on government services and greater incidence of criminal activity.

Economists refer to such outcomes as **externalities**. An externality is an unintended side effect of a market transaction, in this instance being the money spent on child care services during a child's formative years. Such externalities make cost-benefit analysis considerably more complex, since estimating the value of all the associated social costs is extremely difficult. And our problem does not end there. If we could somehow account for all the relevant costs, we still have the problem of putting a dollar value on them. It is not an insurmountable problem, though in practice it is almost impossible to produce any such numbers in an objective or unbiased manner. Finally, even if we the other problems did not exist – that is, we have accounted for all direct and indirect psychological costs and we have found a reliable means of valuing them in dollars – we would still face the question of dollar

equivalence. In other words, is a “psychological” dollar worth the same, less, or more than an out-of-pocket dollar?

The economics literature estimates the value of a human life roughly in the range of \$5 million to \$10 million.<sup>1</sup> Such estimates are usually either inferred from occupational salary and risk differentials or estimated based on expected future earnings over the course of a life. Can we infer from this that it would be justifiable to murder someone if they were paid \$10 million to do so? Of course not. Yet let us think along similar lines in considering the child care problem. While there is no reliable means of estimating the dollar value of the psychological cost of child care, let us assume that it is \$80 billion. Does this mean that if the social benefit (income gains minus fees paid) equals \$100 billion, the \$20 billion difference justifies the move to place young children in child care? Are these equivalent dollars? To an economist, absurdly enough, they are.

Another problem with applying our standard cost-benefit approach is the social myopia that characterizes most people and all but the most exceptionally enlightened government policy. Put simply, we pay more attention to consequences today than to consequences years from now. In the language of economists, we **discount** future costs or benefits at a higher rate than warranted. What this means is that when conducting the social cost-benefit analysis over time, values accruing far into the future are worth only a fraction of their value in today’s dollars. Since the net benefits of child care (income gain minus fee paid) are mostly either immediate or in the very near term, while the psychological costs are likely to manifest themselves much later, we tend to deeply discount the latter in relation to the former. It leads us to the conclusion that the economic benefits today justify the psychological costs tomorrow.

Finally, I want to look at the problem from a macroeconomic perspective. The preferred macroeconomic indicators for any society are the gross domestic product (GDP) – a measure of the value of all the good and services produced for society – and its rate of growth, which is meant to represent progress. While generally accepted uncritically by politicians and industry leaders, this measure is also biased in favor of the child care option. When parents send their children to a private child care agency so that a second spouse can work, it helps the GDP in two ways: through the income earned by the other parent *and* through the fee paid to the child care worker. Each is income, therefore

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<sup>1</sup> For a small sample, one might consult Murphy and Topel (2006), Schelling (1987), and Viscusi (2004).

each counts. Insofar as this outcome contributes to GDP growth, it implies that progress has been made. If, on the other hand, a mother stays home to care for her children, the situation compares unfavorably in strict macroeconomic terms because GDP is less.

Some might argue that the solution to this problem is either revise the GDP accounts to reflect such benefits or to devise an alternative to GDP that would more accurately represent social progress. But I think that this would be a mistake. Doing so would be playing the orthodox economist's game, reducing any and all perceived values to dollars, or at least to quantifiable data. In addition to the methodological problems, mentioned earlier, associated with accurately measuring the psychological cost of private day care, there is also a philosophical problem. Reducing the unintended outcomes to dollar values cheapens human life, and by doing so makes us *more* willing to make such tradeoffs in the future.

I conclude by noting that economics is ill-served to render an accurate verdict on the tradeoff that families make regarding child care. The analytical methods that I have discussed pretend that economic problems could somehow be analyzed apart from other areas or disciplines – including, of course, psychology. People – children especially – are not commodities, and they possess value that is not “tradable” for other goods.

In recognition of this, policymakers should gradually move away from misleading indicators such as GDP or cost-benefit analysis and look at the child care problem more qualitatively, by using multi-criteria means of analysis where dollar costs and benefits are but one criterion considered. The dollar values should be balanced against the myriad non-monetary effects. How do we design a policy formula using criteria that are not comparable? The problem is with the question: no “formula” should apply. Policymakers should become less enthralled by quantitative data in order to regain some of their faculties for judgment and reasoning. Perhaps no formula will tell us that the US government should aim government subsidies at supporting “family-friendly” policies like are far more common in Western Europe (instead of at the child care industry), but it does not mean that it would not be a good idea.

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