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Want to Make Child Care Cheaper and More Accessible? Deregulate It.

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The push for federal subsidies for child care is gaining momentum. Ivanka Trump has urged Congress to pass a tax deduction for child-care expenses. During the 2016 presidential campaign, both Hillary Clinton and Bernie Sanders proposed new federal preschool and child-care programs. And recently, one commentator even advocated opening federally subsidized care centers nationwide.

The concern is understandable. According to 2016 data compiled by Child Care Aware, the average annual cost of full-time center-based infant care varies dramatically nationwide, from $5,178 in Mississippi to $23,089 in the District of Columbia. That amounts to 27.2 percent of median single-parent family income in Mississippi and fully 89.1 percent in D.C. Such high burdens not only have a crippling financial impact on poorer families but can make it uneconomic to work and pay for child care at the same time.

Yet none of the proposed solutions to costly care would make it cheaper. They would simply transfer the high costs to taxpayers. A better starting point would surely be to ask: Why is child care so expensive? One important answer, it turns out, is state-level regulation. Staff-child ratio rules and worker-qualification requirements, in particular, increase prices and reduce availability, particularly in poor areas. These are things state legislators can do something about.

Suppose a staff-child ratio is made more stringent, meaning that fewer children can be cared for per staff member, and qualification requirements for directors of infant centers are increased. These could theoretically improve care by heightening the quantity and quality of interactions with children. The regulations may even convince wary parents that their child would be well cared for, increasing demand for formal, center-based care.

But both regulations raise the cost of serving a given number of children. These increased costs reduce supply, increasing prices and encouraging parents to use less-costly alternatives. Child-care centers could try to compensate by paying staff lower wages, but this may mean the industry attracts lower-quality workers. They might also try to hire cheaper, lower-quality support staff. Both could actually lower quality, rather than increase it.

Empirical research analyzing differences across states shows that the net effects of these requirements are costly and that relaxing them would have beneficial effects without significantly compromising quality. Mercatus Center economists Diana Thomas and Devon Gorry, for example, estimate that loosening ratios by just one child across all age groups would result in prices falling by 9 percent or more. That's over $2,000 per year for a family using full-time infant-center care in D.C. Requiring lead teachers to have high-school diplomas likewise raises prices by between 25 percent and 46 percent.

It's a matter of supply and demand, as research by economists Joseph Hotz and Mo Xiao shows. They find that tightening the staff-child ratio by one child reduces the number of child-care centers in an average area by 10 percent with no apparent impact on quality. Increasing the average required years of education for center directors by one year has modest positive effects on quality, but likewise reduces the number of centers by between 3.2 percent and 3.8 percent.

Crucially, the negative consequence occur almost entirely in poorer areas, and they disproportionately impact single mothers, who are particularly sensitive to child-care costs in terms of deciding whether to work. Costly center-based care also appears to drive parents toward home-based day care or using unlicensed relatives, alternatives that, in the absence of regulation, may result in much lower quality care.

To increase accessibility and reduce the price of formal child-care, then, we need state legislatures and regulators to liberalize these regulations. This should not be considered crazy. Many European countries have no statutory limits on staffing, with no ill effects. Parents demand a safe environment from their providers. It should be up to them to decide what price-quality bundle they want and for providers to be able to operate efficiently to deliver that.

Federal subsidies, in contrast, amount to just disguising the high costs through the generosity of others. They may not even improve access if the program is badly designed. Of course, families would see lower out-of-pocket payments, but others' tax bills would rise to pay for this. And attempts to subsidize "free" care often bring huge unintended consequences. In the United Kingdom, for example, the number of child-care centers is falling as they struggle to maintain profitability given low subsidy rates.

Deregulation of child care is a preferable means of both reducing the cost of care and increasing its availability. It would not put taxpayers on the hook for a single dollar. Rather than introducing a whole new federal entitlement, let's unpick the state-level interventions that drive up the costs of care in the first place.

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