The Economics of Child Care
Summary of an Australian National University conference

This policy summary outlines the findings of papers presented at a conference on ‘The Economics of Child Care’ at the Australian National University on 12 March 2009. Some of the papers are still preliminary. In those cases, this summary presents the objectives of the analysis, but not the results.

David Blau, Ohio State University [with Wilbert van der Klaauw]
What Determines Family Structure?
We estimate the effects of policy and labour market variables on the fertility, union formation and dissolution, type of union (cohabiting versus married), and partner choices of the NLSY79 cohort of women. These demographic behaviours interact to determine the family structure experienced by the children of these women: living with the biological mother and the married or cohabiting biological father, a married or cohabiting step father, or no man. We find that the average wage rates available to men and women have substantial effects on family structure for children of black and Hispanic mothers, but not for whites. The tax treatment of children also affects family structure. Implementation of welfare reform and passage of unilateral divorce laws had much smaller effects on family structure for the children of this cohort of women, as did changes in welfare benefits. The estimates imply that changes in the policy and labor market variables considered here contributed to a reduction in the proportion of time spent living without a father by children of the NLSY79 cohort of women. This suggests that the observed increase in this non-traditional family structure in the U.S. in the last three decades was caused by other factors.

Chikako Yamauchi, Australian National University
The Effect of Child Care Centre Openings on Child Care Arrangement and Maternal Labor Supply
This study investigates how new child care centre openings are associated with child care arrangements and maternal labour supply. The results show that centre openings are accompanied with a substitution toward centre-based care, away from home-based care, particularly among households with 0 and 1 year-olds. However, maternal labour supply is not responsive to changes in centre care availability. These results contrast recent findings indicating a positive impact on maternal labour supply of childcare subsidies coupled with an increase in centre availability. In turn, the results suggest increased centre availability without a fee reduction is likely to have a limited impact on maternal labour supply.
Stephen Whelan, University of Sydney [with Anu Rammohan and Chikako Yamauchi]
Child Care Subsidies and Well-being of Families: Evidence from Australia’s Introduction of Child Care Tax Rebate
This paper uses data from six waves of the 2001-2006 HILDA survey to examine the impact of the introduction of the Child Care Tax Rebate (CCTR) on childcare utilisation and maternal labour market activity. Our analysis compares cohorts of mothers with 0-4 year-olds from low-income and high-income households, before and after the introduction of the CCTR. In particular, we examine if the pattern of changes in childcare usage and maternal labour supply are different between the two groups of households. (Results are still preliminary, so are not reported here.)

Michael Keane, University of Technology, Sydney [with Raquel Bernal]
Child Care Choices and Children's Cognitive Achievement: The Case of Single Mothers
We evaluate the effect of childcare vs. maternal time inputs on child cognitive development using the single mothers from the National Longitudinal Survey of Youth (NLSY79). To deal with non-random selection of children into childcare, we exploit the (plausibly) exogenous variation in welfare policy rules facing single mothers. In our baseline specification, we estimate that a year of childcare reduces child test scores by 2.1% (.114 standard deviations). This estimate is quite robust across a wide range of specifications and instrument sets. But we find important interactions with type of care, maternal education and child gender. Indeed, only informal care leads to significant reductions in cognitive outcomes. Formal centre-based care does not have any adverse effect. In addition, the value of the maternal time input is greater for more educated mothers, and girls are more adversely affected by childcare than boys. We do not find differential effects by child age or race/ethnicity.

Andrew Leigh, Australian National University [with Chikako Yamauchi]
Which Children Benefit from Formal Daycare?
We study the relationship between centre-based daycare and child outcomes, as measured by the temperament of children aged 2/3. To deal with the problem that childcare usage might be correlated with other factors that affect child outcomes, we employ several strategies, including OLS with a large suite of controls, matching estimates, instrumental variables, and analysis of the degree of selection on observables. We also separately test whether the relationship between centre-based care usage and child outcomes differs by parental socioeconomic status. (Results are still preliminary, so are not reported here.)

The conference concluded with a policy roundtable on the topic of ‘What Principles Should Guide Childcare Policy?’. The roundtable was chaired by Chikako Yamauchi, and participants were Michele Bruniges (Director of the Australian Government’s Office of Early Childhood Education and Child Care, DEEWR), David Blau and Michael Keane.

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