CHAPTER 4
The “parents always know best” argument

THE FORM OF THIS ARGUMENT IN THE PUBLIC DEBATE

This argument suggests that parents should be the ones who make decisions about what is best for their children and that governments should not interfere with those decisions. Most parents who work choose informal relatively low-cost arrangements for their children. Many of those who choose more formal and regulated care do so partly because of government subsidies. If we trust the judgment of parents, why should we override the decisions made by the majority of employed parents? And when parents choose not to enter the labour force, why should we design subsidy strategies to induce these parents to work for pay and hire others to care for their children? Because parents know best, they will try very hard to make the right choices for their children. Shouldn’t we be reinforcing these decisions rather than seeking to change them?

Governments, it is argued, interfere with parents’ judgments at their peril because not only do parents know best but also governments often know very little. In this view, centralized decisions by bureaucrats are unlikely to help families or their children and are more likely simply to dissipate the scarce public dollars that could be used far more effectively by the families themselves. By this logic, we should help families by cutting their taxes, not by subsidizing child care.

The biggest barrier to parents making the right decisions, so this argument goes, is the interference of government with the child care market: public financial support of child care, together with tax policies that discourage stay-at-home mothers distort parents’ decisions away from the choices they know are best. Government funding generally promotes inefficiency and interferes with the efficiency of markets. Allowing households to determine how best to spend dollars ensures the best possible decisions and will be best for those households and their children.

This view mirrors the free market approach of most economists. Economics argues that markets generally work well and that government interference, except in special circumstances, does more harm than good. We can see this kind of logic echoed in the pronouncements about child care by some provincial governments who favour parental choice in child care. For example, Brenda Elliot, Ontario Minister of Community, Family and Children’s Services, recently made the following statement:

> Over the past six years the provincial government has made, and continues to make, tremendous improvements in child care options. We must provide a wide range of supports for all parents, so that they can make the best choices for their children. Ontario’s child care funding initiatives focus on parental choice and flexibility. Parents, not governments, are in the best position to make child care choices for their children. We are listening to parents, and we know the majority has their children in informal care instead of institution-based care (*Globe and Mail*, November 20, 2002).

PARENTS ARE IMPORTANT BUT THERE IS ALSO A PUBLIC INTEREST IN CHILDREN

Children go through different stages as they grow up; emotional, social and cognitive abilities, and personalities differ from child to child. Parents are the vital eyes and ears that figure out what their young children need and what services and facilities are available; they are the vital decision makers that shape their children’s experiences as they grow. Furthermore, parents make major income and time sacrifices for their children. The Vanier Institute of the Family has, for instance, estimated that the average cost of raising a child to the age of eighteen is $150,000 in Canada, or about $8000 per year.

However, all of these sacrifices and all of this knowledge do not guarantee the best possible decisions. As we discussed in chapter 3, there is a significant public interest in the decisions made within families. The decision to use good child care and good early education has significant spillovers for other Canadians. And the decision by parents to work for pay also has significant spillovers. Most parents with young children face considerable financial constraints and although they do the best that they can, society can be made better off by helping those parents financially so that they can make better choices. Governments must supplement the efforts of parents and assist them in doing what is best for their children and themselves. This will require substantial government financial assistance to good quality early childhood education and care, and reforms to reduce the penalties facing mothers of young children who seek employment.

In concrete terms, that would mean substantial public financing of good quality early childhood education and care and changes to the considerable taxes paid by the second parent in a family to enter the labour force. These reforms would enhance—not reduce—parental choice and would allow parents to make the decisions to benefit their children and support their families.

There should be a substantial role for parental choice in any publicly financed system of early childhood education and care. For example, generous maternity/parental leave and benefit policies should make it feasible for many parents to stay home with children for the first year of life if they should choose to do so. There should be additional family and sick-child leaves permitting parents to help their children through different emergencies as they grow up. There needs to be a range of good quality educational and care services to choose from at reasonable cost. Further still, these services should be available to children whose parents have decided to stay at home, as well as to those whose parents are employed. The benefits to children will be strong in either case. There needs to be a range of other family supports for families who may need them. Fraser Mustard and Margaret McCain recommended a network of Early Childhood Development and Parenting Centres for communities in Ontario; early childhood education facilities would be at the centre of these "neighbourhood hubs" but an array of other family services could be accessed through the same portal. This kind of policy innovation, spread across Canada, would truly permit parents to find what they need for their children.

IS THERE A HIDDEN AGENDA IN THE "PARENTS KNOW BEST" ARGUMENT?

At the beginning of this chapter, we presented the "parents know best" argument in its most benign version. It suggests that parents are making good decisions when they choose whether or not to enter the labour market and when they decide what kind of child care to purchase—and that government ought not to interfere with these judgements. But there is also a version of the argument that is inherently more critical of the overall orientation of Canadian society: we are somehow on the wrong track, and the entry into the labour force of women—and more particularly of mothers—is a disaster for families and children. This argument suggests that the government already provides too much assistance to out-of-home child care and too little taxation of mothers who are employed outside the home. As a result, too many mothers are choosing to leave their children in the care of others while they pursue meaningless economic excess.

But if one argues that parents know best, then it is hard to suggest that the voluntary decisions of the vast majority of mothers to seek employment and obtain care for their children are wrong without suggesting that they are due somehow to massive distortions caused by government misjudgements. Unfortunately for this view, there are no massive distortions driving women into the labour force. Instead, women are choosing to look for employment because the wages they earn that way provide economic security and opportunity for their families, and because they derive other satisfactions from their careers.

The belief that mothers should return to the home reflects a hankering for the way things used to be in the 1950s. We sometimes look back at the past through rose-coloured glasses. But this ignores two significant facts about that period. First, it was an historical anomaly, resulting perhaps from a reaction to almost two decades of depression and war. The period featured a temporary reversal of a long historical trend towards smaller families and increased women's participation in the labour force. Second, the years up to and including the 1950s were characterized by massive disincentives for women in the labour force. Women's wages were low because of discrimination against women in the labour force and because of significant barriers to women entering high productivity professions. It is unlikely that Canadian society would tolerate a return to those conditions and that Canadian women would voluntarily give up their jobs.

Our view of all this is relatively straightforward. Mothers with young children seek employment because it benefits their families, both in the short run and in the long run. There are many stories featured in the media concerning how young mothers are conflicted about their jobs. These conflicts are easy to understand—mothers know that their families need the pay cheques that the mothers earn, but they are worried about what happens to their children while they are earning those pay cheques. When families have young children,their resources are stretched and they have trouble affording high quality care for their children. Because society has a stake in how children turn out, we must be prepared to spend public dollars to supplement the care that parents can afford to purchase.

THE PUBLIC INTEREST RESTATED

If we accept the argument that parents try to make good decisions for their families—and in particular for their children—then any debate about public support for child care turns on whether there are significant economic distortions that might drive parents in the wrong direction. If one believes that mothers are being driven into the labour force because of inappropriate government policies and that this is bad for children,then these policies should be reversed,and public funding for child care, which will encourage mothers to seek employment, should be opposed. If, on the other hand, one believes (as we do) that the distortions run the other way: that there are still significant barriers encouraging mothers not to enter the labour force and not to use good child care when they do, then we ought to support good child care and early education and look forward to the changes in behaviour that these kinds of policy will induce.

What kinds of economic disincentives are currently at play? As we argued in chapter 3,there is a significant public interest in raising the quality of child care. The private market for child care does not reflect this public interest,and as a result, parents purchase too little child care, not too much. The only way to fix this is for the government to intervene to lower the price to parents of obtaining good quality services. The public interest in high quality early childhood education and care is important and bears repeating:

1. Children who receive better child care grow up to be more productive workers. They pay higher taxes,and these support a variety of programs that benefit others in society.
2. More productive workers also invent new ways to do things and open new businesses,both of which make other workers more productive—again benefiting others in society.
3. Children who receive better child care grow up to be more responsible adults participating in our social and political life. Again, this benefits others in society.
4. Most research shows that better child care is of particular benefit to poor children. This certainly makes their parents better off, but it also benefits the rest of us because we place a strong value on equal opportunity in our society.
5. Some parents may prefer to spend more money on themselves and less on their children, but all children have a right to high quality care, whatever the preferences of their parents.

There is also a public interest in the entry of mothers into the labour force. We are arguing quite differently than those who want mothers to return to the home. We are suggesting that distortions in taxation and other government policies are keeping some mothers out of the labour force and that public funding for child care might counteract some of these disincentives. These current distortions are as follows:

- Mothers already face fairly high tax rates, which induce them not to enter the labour force, even though it may be economically efficient for them to do so. These tax rates are greater than might appear because of the way the spousal credit is designed and because payroll taxes are significant even at low wages.Studies show that second earners are particularly sensitive to taxes on their wages when making the decision on whether or not to work.

- The problem is far more extreme for single parents who are usually eligible for social assistance ifthey are not employed but lose those benefits if they find full-time jobs.
- Employment is beneficial for parents because wage increases in the future are linked to experience and to the development of skills in the workplace. Because these additional wages are taxed, parents will not fully take them into account when they decide when and whether to re-enter the labour force after the birth of a child.

In addition to these public goods issues, there are a number of other considerations that interfere with the ability of parents to make the best choices. These will be the subject of the rest of this chapter, and during that discussion, we will ignore the public goods issues dealt with earlier.

OTHER TYPES OF MARKET FAILURE THAT AFFECT BENEFITS TO CHILDREN

Economists believe strongly in the decisions made by consumers because of the way in which they perceive markets as working. Consumers demand products and firms have an incentive to produce what consumers want because otherwise they will be driven out of business (by competitors who are more aggressive in meeting the needs of buyers). Microeconomic theory tells us that this process works very well.

We have already voiced the concern that parents may not buy child care of high enough quality. Even when we ignore the public goods issue, the quality problem remains. In the markets for most goods and services, quality is not much of a concern for governments. Markets work well because consumers can evaluate quality, at least after the fact. Because sellers need to attract buyers week after week, there are all the right incentives for producing what consumers want.

But child care is very different from most other products. Few parents can evaluate the long run effects of good child care. The “market” for child care is currently decentralized and somewhat chaotic. Many parents have never purchased child care before, and by the time they learn what they need to know, their children are old enough so that the parents may never purchase child care again. Working parents have little time to seek out and evaluate child care, even if they know entirely what they were looking for. Furthermore, the direct consumer of the care—the child—cannot easily communicate with the parent about what kind of care is being delivered. And the effect of good or bad child care is seldom immediately apparent.

There is, in fact, some evidence that parents may have difficulty assessing the quality of child care. An American study (Helburn, 1995) found that parents substantially overestimated the quality of care received by their children relative to evaluations made by trained observers. While parents valued the same kinds of things that professionals valued, their rankings differed significantly: 90 percent of parents rated their child’s classroom as high quality, while trained observers rated most classrooms poor to mediocre. Other studies have produced similar results. If parents cannot judge quality differences, then they are unlikely to pay for real increases in quality.

Even more alarming, if parents have difficulty assessing quality, low-quality care providers can drive higher quality providers out of the market by under pricing them. High quality care generally uses better-educated workers who naturally receive higher salaries. Lower quality care uses workers who are not as well trained and who earn less. Because of higher labour costs, high quality care costs more. If parents cannot judge better quality, then they will make judgments based primarily on price. High-quality higher-cost care providers will attract fewer children and will not earn enough revenues to survive.

All of this makes a compelling case for some kind of public intervention to ensure good quality care. There is considerable merit to directing child care dollars to high quality regulated child care rather than attempting to raise quality by funnelling dollars directly through parents themselves.

But even if parents could accurately evaluate quality, there would be a good reason to subsidize high quality child care. Child care is different from other products in that it is largely an investment in the future. Good child care is preferable to bad child care not simply because it makes children happier today, but because it helps prepare children for their adult lives. The economic term for this process of investing in the future productivity of people is "investment in human capital." Economics teaches us that individuals can only make efficient choices on investments in human capital when they can effectively borrow against the future to finance these kinds of ventures. Wealthy parents have assets that they can borrow against to finance current spending. But most parents of young children are not in this position.

Good child care is expensive. Parents with young children are generally at the most financially disadvantageous point in their lives. They are usually near the beginning of their earning lives and have incomes considerably below their lifetime average. At the same time, they have few assets and are often saving to buy a home or dealing with high mortgage payments. Every dollar spent on child care is a dollar not available for other essentials. Even though an extra dollar spent on child care will generate far more than a dollar's worth of benefits in the future,the family cannot easily borrow to finance this productive investment in human capital. Most young parents cannot borrow at reasonable rates of interest to finance years of high cost child care.

In economic theory, consumers could use the asset being purchased as collateral for a loan. In practice,however, the asset being generated by good child care is a productive and effective young worker 20 to 25 years in the future. There is no practical way to pledge the child's future increase in earnings to finance loans, which will in turn be used to pay for good child care.

The situation becomes even clearer when looked at from the point of view of the child. At the other end of childhood, when a student is considering attending law school or medical school, banks are prepared to make student loans to finance the education, with the relative certainty that these loans could be easily repaid through higher future earnings. No bank would lend money to a 3 year old child to finance good child care in the expectation that this expenditure would be economically productive. Nor could we imagine the 3 year old negotiating such a loan. The absurdity of this suggestion simply illustrates the failure of markets to allow for reasonable investments in young children. Such investments will clearly require state intervention. This same logic is used by economists to justify state financing of all kinds of education.

A productive way to think about public funding for child care and early education is to imagine it as a loan made to each generation. The loan is paid for by the recipients themselves through the taxes levied on their future earnings.Like most social programs,it is a "pay-as-you-go" arrangement, with each generation financing the next generation's benefits.

OTHER TYPES OF MARKET FAILURE THAT AFFECT BENEFITS TO PARENTS

Even if there were not a direct public interest in the employment decision (because of the taxes collected),there might be other reasons, which would cause the market outcome to be inefficient. The decision to work brings two benefits to the family: first,current wages increase family income today; second,future wages are higher because of continuous attachment to the labour force,increasing family income in the future. This latter benefit means that it might be beneficial to the family to have the mother in the labour force, even if there were a slight reduction in current family income in the present. That is, even if wages were less than the cost of child care plus other work-related expenses and the loss of other household productivity, it might be beneficial to have the mother continue to work. In theory, this decision could be financed by loans against the future higher earnings. As discussed above,most families with young children have budgets that are already severely pinched and borrowing more money is often not a real option. For that reason, efficient decisions may require government involvement. Subsidies to child care are one way to help young families at a time when they are most in need of it.

There is also another reason why young mothers may not make appropriate decisions about employment. In Canada today, there is considerable risk of divorce. Most young parents are at the beginning of their relationships and tend not to take these risks into account. Yet the costs of divorce fall disproportionately on women. Women are usually left with custody of the children, and legally mandated child support payments from husbands may be hard to collect. For that reason, divorce is a considerable risk factor in poverty for young women and for their children. This poverty has a considerable cost to both women and children (not to mention to the government, which often has to make welfare payments and bear other aspects of the cost of divorce).One way to mitigate these costs is for the mother to retain her attachment to the labour force. Because that attachment means higher wages in the future,a mother who has remained at work will have an easier time earning the income necessary to get by if her marriage falls apart.

In theory, young mothers ought to take all this into account when they decide whether or not to stay employed. In practice, few young people account for these risks. Government policy, which encourages women to have careers and to remain in the labour force, may be the most effective way to protect both them and their children from marital breakdown. The most effective government policy to encourage women to stay in the labour force is the availability of high-quality low-price child care.

We have argued,in this chapter and in the previous one,that child care funding will bring more mothers into the labour force. In the long run,this will make families better off and will also benefit the government in the form of increased tax revenues, both now and in the future.

It is hard to argue that encouraging mothers into the labour force would be inefficient, when this has in fact been the historical trend. In the 25 years between 1976 and 2001, the labour force participation rate for women with partners and young children rose dramatically. For these mothers with children under the age of 3, that rate rose from 28% to 64%; for mothers whose youngest child was between 3 and 5, that rate rose from 36% to 69%; for mothers whose youngest child was between 6 and 15,that rate rose from 46% to 76% (see Table 6.2 in chapter 6). This fundamental change in the way in which women see themselves in relation to the labour market is one of the most important economic shifts in the late 20th century.

Certainly, a significant number of mothers still remain at home full time to care for their children. But when the majority are in the labour force and when those numbers continue to rise each year, it makes little sense to suggest that labour force entry is inefficient. If "parents know best," then labour force participation by mothers has been revealed to be a beneficial and efficient outcome. Society needs to be concerned about the care of children when this occurs, and that is the focus of any proposal for public spending on child care.

Nonetheless,as economists we are concerned about efficiency and do not want to distort any decisions when this is not necessary. One way to ensure that government spending does not distort the decision by mothers to enter the labour force is to make that support available whether or not mothers are employed. If we direct public dollars towards child care and early education for mothers in the labour force and also towards early education for the children of mothers who do not enter the paid labour force, then the labour force decision will not be significantly distorted.

It must be emphasized however that public spending on both types of children's services makes sense for reasons that certainly transcend the narrow arguments about efficient labour market entry. As there is good evidence that early educational education improves the lives and later productivity of all children, we believe that public funding must be directed to all children—whether or not their parents are in the labour force—in order to achieve these ends.

SUMMARY OF THE ARGUMENTS

Arguments against public funding for child care that begin with a statement that parents know best what to do for their children can be hard to deal with because, in general, most of us agree that parents want what is best for their children. Furthermore, we know that parents matter more than anything else when we consider what contributes to the welfare of children.Good child care matters but good parenting matters even more. This is not to downgrade in any way the importance of good child care. But all studies of child outcomes show that what parents do is critically important.

However, even though parents want to do what is best for their children, they may not always be able to make the best choices. This is true for the following reasons:

- Child care has public good elements,so society may want to improve quality of care beyond what parents will choose, an argument made in chapter 3.

- Ignoring these public good aspects,it is also true that parents may not always be able to judge quality accurately, suggesting a need to undertake measures to eliminate low quality care.
- Parents may want to buy high quality care but face income constraints that make this impossible. Thus, good child care may be an economically efficient investment in children but many parents do not have the funds to finance this investment, even when they see that it would be desirable.
- Some parents may not properly perceive the advantages of continuing attachment to the labour force. These advantages include higher incomes in the future and more security should family structure break down.
- Because most parents with young children are already employed,it is hard to argue that there will be significant inefficiency associated with programs that encourage parents to continue their attachment to the labour force.