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**THE ECONOMIC AND CONTRACTING ISSUES
OF IN-HOME CHILD CARE -- THE NANNY MARKET**

by

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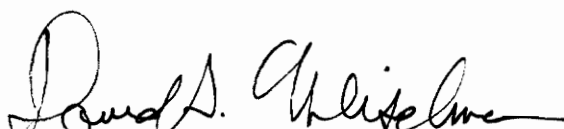
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**Committee Chairman: Robert J. Mackay
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(ABSTRACT)

This thesis is an industry study of the market for in-home child care--a market which has developed rapidly in the past 10 years. The economic considerations discussed herein are the market-making characteristics of demand (for nannies), supply (availability of an appropriately skilled labor pool--from both the legal and illegal market), price (wage levels and premiums) and the contracting issues of asymmetric information, search costs, transaction costs, uncertainty and risk. The market is best-explained as a search model and its behavior is driven by solutions to contracting problems.

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**THE ECONOMIC AND CONTRACTING ISSUES
OF IN-HOME CHILD CARE -- THE NANNY MARKET**

CHAPTER 1: THE MARKET

The Demand for Nannies:

In the British tradition, a nanny is a "nursery nurse" -- an individual trained to take care of infants, with some medical training. There has been tremendous growth in the demand for nannies in the United States, based largely on a change in employment patterns -- the number of women in the workforce continues to increase. As shown on Table 1, in the early 1900's, about 20 percent of women -- generally those single or widowed -- worked outside the home. By 1950, about 33 percent of women worked outside the home and constituted 29 percent of the workforce. By 1986, 49 million women -- or about 66 percent of women -- worked, and women constituted 44 percent of the workforce.¹

As shown on Table 2, by 1986, 53.9 percent of wives with children under the age of 6 participated in the labor force; about 58 percent of women maintaining families alone with children under the age of 6 were working. The rate for wives with infants (children 1 year old and under) was 49.8 percent, more than double the 24 percent in 1970. About 45 percent of women heads of households with infants were working.

¹ Economic Report of the President, Transmitted to the Congress January 1987 (Washington, D.C.: U.S. Government Printing Office, 1987), pp. 209 and 211.

**Table 1: LABOR FORCE PARTICIPATION RATES OF WOMEN
BY AGE
1890-1986**

<u>Year</u>	<u>Women Ages:</u>		
	<u>20-64</u> (1)	<u>20-24</u> (2)	<u>25-34</u> (3)
1890	17.4%	30.2%	16.8%
1890	19.3	31.7	19.4
1920	22.9	37.5	23.7
1930	25.4	41.8	27.1
1940	29.4	45.6	33.3
1950	33.3	43.6	32.0
1960	42.3	46.1	36.0
1970	50.0	57.7	45.0
1980	60.8	68.9	65.5
1986	66.4	72.4	71.6

Note: There is some controversy over the Census counts of women workers in the 1890-1940 time period. Data here for 1890-1950 are from Bureau of the Census monograph, Gertrude Bancroft, *The American Labor Force*, New York, Wiley, 1958. Data for 1960-86 are from Department of Labor, Bureau of Labor Statistics.

Source: Economic Report of the President, Transmitted to the Congress, January 1987 (Washington, D.C.: U.S. Government Printing Office, 1987), p. 211.

**Table 2: LABOR FORCE PARTICIPATION RATES OF WOMEN BY AGE
OF YOUNGEST CHILD**
MARCH OF SELECTED YEARS, 1970-86

Presence and age of child	1970 (1)	1975 (2)	1980 (3)	1986 (4)	Women maintaining families alone, 1986 (5)
1 year and under	24.0%	30.8%	39.0%	49.8%	44.7%
Under 3 years	25.8	32.6	41.5	51.0	50.9
3-5 years	36.9	42.2	51.7	58.5	64.5
Under 6 years	30.3	36.8	45.3	53.9	57.9

Source: Department of Labor, Bureau of Labor Statistics, as reported in Economic Report of the President, Transmitted to Congress January 1987 (Washington, D.C.: U.S. Government Printing Office, 1987), p. 211.

Periodic estimates of the number of working mothers with children of various ages are prepared by the U.S. Department of Commerce, Bureau of the Census in the Survey of Income and Program Participation (SIPP) and are published in reports entitled "Who's Minding the Kids?" The most recent survey reports that in 1987 about 1.5 million children under 1 year old, 3.8 million children age 1-2 years and 3.9 million children ages 3-4 years required childcare. As shown on Table 3, this translates into about 8 million working women with about 9 million children under the age of 5.

**Table 3: PRIMARY CHILD CARE ARRANGEMENTS
USED BY EMPLOYED MOTHERS
FOR CHILDREN UNDER 5, BY AGE OF CHILD**

FALL 1987

(Numbers in thousands)

Type of arrangement	Total Number of Children (1)	Under 1 Year (2)	1 to 2 Years (3)	3 to 4 Years (4)
Number of children	9,124	1,485	3,771	3,868
Care in child's home	2,727	463	1,235	1,029
By father	1,395	232	596	567
By grandparent	463	81	200	182
By other relative	298	27	188	83
By nonrelative	570	123	250	197
Care in another home	3,251	570	1,558	1,123
By grandparent	793	131	312	350
By other relative	428	93	228	107
By nonrelative	2,031	346	1,019	666
Organized child care facilities	2,220	209	683	1,328
Day/group care center	1,465	175	546	744
Nursery school/preschool	755	34	137	584
Kindergarten/grade school	90	0	0	90
Child cares for self*	24	6	9	9
Mother cares for child at work*	813	237	287	289

* The survey includes "responses which indicate that the parents themselves care for their children while at work . . . , or that the children are left to care for themselves." (p. 1)

Source: U.S. Department of Commerce, Bureau of the Census, Who's Minding the Kids?, Child Care Arrangements: Winter, 1986-87, Current Population Reports, Household Economic Studies, Series P-70, No. 20, Table E.

Economic theory suggests that women will allocate their time between work and home such that the marginal benefit of working in the home equals the marginal benefit of working in the market. Social changes (urban residences and lower birth rates) and technological advances (labor saving devices) have reduced the amount of time required to maintain the home.

However, few technological advances have affected the mother's commitment to childrearing. With a newborn, the mother's time and attention is immensely important; this raises the mother's marginal product of time at home. As the child ages, the mother's time and attention becomes less critical. The mother's marginal product of home time decreases and working outside the home may become optimal.² The social acceptance of hiring a care-provider to care for the child further encourages mothers to return to work.

Moreover, the success of working women has encouraged more women to work: expectations have changed about the appropriateness of women establishing and investing in their own careers (versus their husbands'); women are attaining higher levels of education; and women are achieving higher participation/experience rates -- all of which have resulted in higher wages for working women, which in turn induces more women to work.³

Many mothers work outside the home because their salary is needed to help cover the family's living expenses. They also may have secured better-paying,

² Jacob Klerman and Arleen Leibowitz, "Child Care and Women's Return to Work after Childbirth," Women's Labor Market Mobility: Evidence from the NLS, *American Economic Review Papers and Proceedings*, Vol. 80, No. 2, May 1990, pp. 284-285.

³ 1987 Economic Report of President, *op. cit.*, p. 213.

professional jobs which they want to keep to further a career. Many women adopt a "life cycle" approach to employment decisions: they return to work soon after the birth of a child to avoid a break in service which could adversely affect their future employment alternatives and salary prospects.

In years past, these working mothers may have turned to their mothers, their mothers-in-law, an aunt, someone in the extended family who was not working to provide care for their children. Today relatives provide care for about 3.4 million children age 4 and under, or about 37 percent of the total (see Tables 3 and 4).

Table 4: PERCENT DISTRIBUTION:

**PRIMARY CHILD CARE ARRANGEMENTS USED BY EMPLOYED MOTHERS
FOR CHILDREN UNDER 5, BY AGE OF CHILD**

FALL 1987

<u>Type of arrangement</u>	<u>Total</u>	<u>Under 1</u>	<u>1 to 2</u>	<u>3 to 4</u>
		<u>Year</u>	<u>Years</u>	<u>Years</u>
		------(Percent)-----		
	(1)	(2)	(3)	(4)
Number of children	100.0%	100.0%	100.0%	100.0%
Care in child's home	29.9	31.2	32.7	26.6
By father	15.3	15.6	15.8	14.7
By grandparent	5.1	5.5	5.3	4.7
By other relative	3.3	1.8	5.0	2.2
By nonrelative	6.2	8.3	6.6	5.1
Care in another home	35.6	38.4	41.3	29.0
By grandparent	8.7	8.8	8.3	9.0
By other relative	4.7	6.3	6.0	2.7
By nonrelative	22.3	23.3	27.0	17.2
Organized child care facilities	24.3	14.1	18.1	34.3
Day/group care center	16.1	11.8	14.5	19.2
Nursery school/preschool	8.3	2.3	3.6	15.1
Kindergarten/grade school	1.0	0	0	2.3
Child cares for self*	0.3	0.4	0.2	0.2
Mother cares for child at work*	8.9	16.0	7.6	7.5

* The survey includes "responses which indicate that the parents themselves care for their children while at work . . . , or that the children are left to care for themselves." (p. 1)

Source: Derived from Table 3.

But, for many young families, these traditional sources of care are no longer available -- women in the extended family also are working and are unable to assist, or because families are no longer geographically clustered, no relatives are nearby to provide care. Working parents requiring quality care for young children create the strong demand for nannies who can live-in or live-out (someone who comes to the home each day to provide care, rather than living with the family.)

Why nannies? As shown on Table 3, above, care in the child's home by a nonrelative is one of several alternatives: in 1987 only about 570,000 of the over 9 million children under 4 (or 6.2 percent) were cared for by nannies. Clearly, most young children are cared for by relatives, in group care settings and in organized child care facilities. But for infants and very young children who require constant care and attention and who are vulnerable to health and medical problems, in-home care is preferred to the other alternatives. Hence, the demand for a nanny to provide that constant care and attention in the child's home environment.

Countless articles in the popular press report the difficulties in finding and keeping well-qualified nannies. In part, the difficulty results because nannies are perceived as the top-of-the-line care option (as compared to group care or centers), and sometimes the only care option (for infants and very young children). And having a nanny is in vogue -- the many "baby boomers" who have very young children and who earn enough to afford a nanny want a nanny. An American journalist reported that when working mothers of young children are asked what would improve their life, most answered "A week off or a nanny."⁴ A British journalist quipped that these

⁴ "College of the Canyons' New Program Trains Child Care Specialists. Call It . . . Nanny and the Professor," Los Angeles Times, April 20, 1989, p. 12.

young professionals used to be "dinks" -- dual income no kids; now they are "tinks" -- two incomes, nanny and kids.⁵

Most working parents are looking for very reliable child care which also is affordable and of high quality. Reliability is the motive for many live-in arrangements -- parents want a live-in provider to avoid the risk of the nanny being late in the morning or not showing up at all; further, a live-in could accommodate parents staying late at work. In return for the security of reliable and convenient child care, the family forfeits some of its privacy to the live-in nanny. A live-out arrangement allows the family to function traditionally, but introduces the possibility of some uncertainty in the daily routine.

The service demanded of the nannies centers on the care of the child. Each employment agreement is negotiated individually, but the duties included generally cover all the responsibilities the parents otherwise would face if they were caring for the child: routine care (dressing, bathing, etc.), playing and teaching, meals, tidying the child's room, doing the child's laundry, driving the child to doctor appointments, and so forth.

The Supply of Nannies:

The individuals who respond to this strong demand are the nanny candidates. The International Nannies Association, established in 1985 and based in Austin, Texas, defines a "nanny" as:

⁵ "Hardly Mary Poppins; The Nanny: Old Order Changeth," Los Angeles Times, December 5, 1988, p. 1.

Employed by a family on a live-in or live-out basis to undertake all tasks related to the care of the children. Duties are generally restricted to child care and the domestic tasks related to child care. May or may not have had any formal training, though often has a good deal of actual experience. Nanny's work week ranges from 40 to 60 hours a week. Usually works unsupervised.⁶

Some are indeed the trained nursery nurse; others are young women (and, recently, men) responding to a job opportunity: a young person from an economically depressed area of the U.S. (perhaps Oregon or Montana) who needs a job; the wife of a European professional in the United States on a visa while her husband is on assignment, who speaks minimal English and who legally is not to work while in the United States; or a 60-ish woman seeking additional income (a gran-nanny). The demand is so strong, particularly in urban areas such as Washington, D.C., New York City and Los Angeles, that the nanny market has drawn candidates into the labor pool who otherwise would pursue other employment opportunities. Further, a large part of the labor pool is from the illegal market -- individuals who either are in the United States illegally or are here on a visa which precludes them working.

A. The Legal Market

A popular source of nannies is England and Ireland, where there is a nanny tradition, where nanny training and certification are practiced, and where nannies are perceived as important assets to the family. These English and Irish nannies generally are placed by an agency. They are considered top quality caregivers⁷ and are expensive:

⁶ "The Newfangled Nannies," The Washington Post, June 30, 1990, p. C-9.

⁷ Ibid. p. C-1.

"[U.S. parents] are offering salaries of up to £700 a month, free food and accommodation, medical insurance, and a car to competent candidates. They are even paying £500 finders' fees to employment agencies to help them get the girl of their dreams."⁸

Another source of supply is the pool of experienced and/or trained U.S. nannies:

"They are the Cadillacs, the Jeep Grand Wagoneers -- depending on which coast, which clients -- of babysitting. They can place complicated phone calls. They speak English! They have working papers! Diver's Licenses! They take CPR courses, can quote T. Berry Brazelton and Benjamin Spock, deal with the Jealousy Issue, fit in at the country club. They have smarts, after all. They are nannies who know. For one thing, they knew to be nannies -- not babysitters or au pairs or mother's helpers or day-care workers."⁹

Hariette Grant -- the 1990 Nanny of the Year, elected by the International Nannies Association -- is such an individual. She has a nursing degree and has been a nanny for 27 years -- 13 years with one family, 14 years with another.

Another source for nannies has been the Mormon Church: young Mormon women are very popular as nannies because they do not drink or smoke and the Mormon heritage promotes high moral standards and a family orientation. An agency in Salt Lake City estimated placing about 500 Mormons in nanny positions in each of the last several years. Recently, however, the Mormon Church has encouraged its young women not to become nannies because they often lose their support systems (family, friends and church) and can be taken advantage of by their employers or new friends. As a result, fewer Mormons are seeking placement.¹⁰

⁸ "Nanny Knows Best Deal is in America," The Daily Telegraph, October 25, 1990, p. 3.

⁹ "The Newfangled Nannies," op. cit.

¹⁰ "Mormon Church Advises Young Women Against Nanny Jobs," United Press International, November 20, 1989, Regional News.

Au pairs also provide nanny services. Young European students from the Netherlands, West Germany, Sweden, Britain and Ireland come to the U.S. generally during the summer as part of a cultural exchange program, but work as an in-home caregiver. The au pairs are paid for their work and are provided medical insurance. Au Pair/Homestay USA, which sponsors the Au Pair in America program, estimates they placed over 6,600 live-in au pairs from 1986-1989.¹¹ In the summer of 1990, over 100 students from Eastern Europe and the Soviet Union (both areas "opened" by the late 1989-1990 political changes) were to come to the U.S. as nannies under a program sponsored by the American Institute for Foreign Study; in return, the U.S. was to send 150 students to Leningrad. The arrangement is considered a cultural exchange program. However, American families "hosting" a family companion pay \$130 a week for child care and light housework services; the companions generally are here for 10 weeks.¹²

The Au pair program has been so successful that the American Institute for Foreign Study has begun a new American Family Companion program to find U.S. youth to work in the U.S. as nannies. American companions work up to 55 hours per week as live-in housekeepers and babysitters and receive at least \$125 per week salary, medical insurance, a 2-week paid vacation, private room and board, a \$250 education allowances, access to a local community counselor, and after one year, a free trip to

¹¹ "Summer's Approach Raises Demand for Nannies," UPI, May 12, 1989, Financial Section.

¹² "Nannies coming to U.S. from Eastern Europe and Soviet Union, UPI, March 29, 1990, Regional News.

Europe or a \$750 bonus. American companions are at least 18 years old, have a valid driver's license and have some child care experience.¹³

Individuals whose background and experience includes only babysitting or mothers-helper work pursue nanny positions. These individuals can now attend a variety of training or educational programs to upgrade their skills -- there currently are over 68 nanny programs at community colleges and over 15 private schools (e.g., National Academy of Nannies, Inc.) offering training.¹⁴

But there is no standardized nanny certification program in the United States. Without a qualifications requirement (some standard to act as a barrier to entry), anyone can try his/her hand at being a nanny. This includes young adults with minimal child care skills who otherwise might work at McDonalds for minimum wage, people with criminal records interested in low-profile positions and elderly women looking for something to occupy their time.

Prior to 1988, illegal aliens were in ready-supply as nannies. If caught working without a green card and without a sponsor, the alien was fined. "In the past, so many illegal aliens were looking for domestic jobs that even dream housekeepers, nannies and maids were easily replaced."¹⁵ Nanny positions were attractive to the individual because many were live-in positions -- a condition required to be sponsored by a family for a green card, which would allow her to work legally. The nanny's goal generally was obtaining a green card -- a process which took from 2.5-4 years and cost

¹³ "New Nanny Program Offers European Travel As Benefit," PR Newswire, November 28, 1989.

¹⁴ "Nanny Scarcity has Parents Scrambling to Make Job Worth It," Los Angeles Times, November 4, 1990, p. 12.

¹⁵ "Couples Search for Ways to Perk Up Nanny Jobs," Los Angeles Times, January 22, 1990, p. E1.

about \$2,500 in fees and expenses. Many families assisted in the application process and underwrote the financial expense, in large measure to keep the nanny at least during this several-year process, if not longer.

B. The Illegal Market

The Immigration Reform and Control Act of 1986 severely limits the employment opportunities for illegal aliens and shifts the burden of responsibility from the alien to the employer.¹⁶ The legislation specifies sanctions (jail sentences of up to 6 months) and fines (up to \$10,000) which must be paid by any employer knowingly employing illegal aliens. These individuals are attractive nanny-candidates to many parents: many have well-developed child care skills, higher levels of education, better socialization, etc. than the younger, less experienced U.S. citizens; others often are willing to work for much less than their citizen counterparts.

Illegal aliens generally are introduced to parents searching for a nanny by friends or family already working in a household (a referral), by church placement groups, by community placement services and by agencies. A green card may be shown by the applicant, but there is no easy way for a family to prove the legitimacy of the person's papers.¹⁷

Most illegal aliens find nanny positions through this informal network.

"Much more typical are informal matches. When Marata Perez arrived, for instance, she paid a Guatemalan woman in her neighborhood \$50 to find her a first job; by now, Perez figures that

¹⁶ This Act granted amnesty to illegal aliens who had been working in homes; now able to work legally, many of these individuals moved to higher paying office jobs.

¹⁷ "Latina Nannies/Anglo Families; The Intimate Experiment: What Happens When Two Cultures Meet at the Playpen and the Cradle?", Los Angeles Times, February 19, 1989, p. 18.

she herself has placed seven Guatemalans and Salvadorans, at no charge.

"Donna Kramer, another Anglo mother, who lives in Pacific Palisades, describes the underground network: 'No one I know has to look more than two weeks (for help). You just put the word out and it's there.'¹⁸

In Washington, D.C., another type of illegal alien often searches for a nanny position: the wife of a scientist or educator in the United States on some type of exchange program, or the wife of embassy personnel. These individuals tend to be better educated, speak good English and are able to meet parents' expectations of quality care; and the wages offered may seem good by their country's standards, particularly on a tax-free basis.

The Immigration and Naturalization Service (INS) personnel actively pursue suspicious travelers entering the United States -- for example "young British women who come to the United States posing as tourists, but who are going to work illegally as highly paid professional nannies."¹⁹ One such traveller was questioned for three hours by INS officers upon her arrival at Dulles Airport. She ultimately was allowed to enter the United States as a tourist -- and "the family that had found her through her ad in the British Magazine Nursery World was waiting for her on the other side of passport control."²⁰

The INS also is petitioned by parents employing illegal aliens who return to their countries (for vacations, family emergencies, etc.) and once outside the United States,

¹⁸ Ibid.

¹⁹ "The Clandestine Nannies Who Try to Slip Past Uncle Sam," The Independent, September 4, 1990, p. 16.

²⁰ Ibid.

cannot return. The INS receives about 4,000 petitions each year requesting exceptional treatment and approves about 800. For example, a Guatemalan working illegally as a nanny was instrumental in assisting police find her 4-year old charge after the child was kidnapped, and, as a result of her efforts, the government allowed her to become a legal resident of the United States rather than be deported.²¹

The INS also can prosecute vigorously. Recently, Samuel Kaplan, owner of Select Employment Services, a Baltimore, Maryland, employment agency, was prosecuted for importing women -- allegedly over 600 women -- from Trinidad and other Caribbean Islands to be nannies in homes in the Baltimore-Washington area. The women each paid Kaplan a placement fee of \$2,000 to \$2,500, part of which Kaplan paid to three "recruiters" working with him in Trinidad. The women entered the United States as vacationers, with no work permits or green cards. Kaplan then placed the women in nanny positions, paying \$135 to \$200 per week. Kaplan also apparently helped some of the women apply for green cards, which, as previously mentioned, is a 2.5 to 4-year process. His conviction actually was limited to "one count of inducing an illegal alien to enter the United States and a second count of referring another to a job for a fee" -- both violations of immigration laws. He faces 5.5 years in prison and \$253,000 in fines.²²

²¹ "INS Heeds Family Plea, Let Nanny Hero Return," Los Angeles Times, February 20, 1990, p. 1.

²² "Owner of Md. Job Agency Guilty in Illegal Nanny Case," The Washington Post, December 8, 1990, p. B5.

The Cost of a Nanny:

A. Wages and Benefits

The cost of quality-care nannies is high. The demand for trained, experienced nannies is so strong that they generally are placed easily, often with buyers bidding up the wage to secure the deal (such a nanny may earn \$350-\$800 per week plus benefits -- room and board, use of a car, paid sick leave, paid vacations).²³ In most instances, parents and agencies are in search of less-experienced individuals who are willing to work long hours (say, 10 to 12 hours a day, Monday through Friday; perhaps part of Saturday) for minimal wages (in the \$4-\$5 per hour range or, today, around \$200 per week; for live-ins, the value of the additional room and board has been estimated at \$36 per week) in a profession which historically has not been highly respected.²⁴ The Fairfax County Office for Children estimates that in 1989 the weekly cost of a nanny was \$135-165, or about \$6,000 per year.²⁵ In New York City, nannies earn \$250 to \$500 per week, somewhat higher than the national average of \$150 to \$500 per week.²⁶ In the Los Angeles area, "[t]he going rate for a skilled live-in housekeeper or nanny who can speak English, drive, cook and take kids to the doctor, is \$300 to \$500 for a 50-hour week."²⁷

²³ "College of the Canyons' New Program Trains Child Care Specialists," op. cit.; "Where to Turn When You Need A Nanny," Business Week, December 21, 1987, p. 133; "Nanny Search Has Area Parents Pining for Mary Poppins," The Washington Post, February 6, 1989, p. A1.

²⁴ "Need for Nannies Increases but They Don't Do Windows," Business First-Louisville, May 22, 1989, p. 1; "How to Hire a Nanny," The Washingtonian, October 1988, p. 171.

²⁵ WNBC Television, "The Child Care Crisis. . . Here and Now," Channel 56, August 9, 1989.

²⁶ "N.Y. Nannies Wield Powers Mary Poppins Would Envy," Chicago Tribune, September 30, 1990, p. 1.

²⁷ "Couples Search for Ways to Perk Up Nanny Jobs," op. cit.

A 1987 study by the Families & Work Institute estimates that nationally, families spend between 10 and 25 percent of income on child care.²⁸ Locally, Fairfax County estimates that resident families on average spend about 10 percent of their income on child care each year. In North Carolina, child care expenses reportedly rank fourth in family budgets -- after food, housing and taxes.²⁹

As demand for nannies has risen, families able to afford them have developed ways to sweeten the pay package to keep a quality care provider, including offering:

- an annual paid vacation;
- health insurance;
- interest-free loans;
- pension plans;
- the establishment of college education funds for nanny's children; and/or
- a reduction of housekeeping chores.

At one extreme, one or more of these benefits may be offered in exchange for a lower more affordable weekly salary. At the other extreme, parents will do almost anything to keep a good nanny:

To keep her live-in, Beth Rogers, of Brentwood, happily kept raising the ante. A mother of four and the owner of a framing company, Rogers sent her housekeeper to school to learn English. Then she paid for her driving lessons. Eventually, she sent her to accounting classes so she could handle the family budget. "I called her my 'home manager' because she was so much more than a housekeeper," said Rogers.

When her housekeeper's son, Raoul Cano, arrived from El Salvador, Rogers took the boy into her home rather than lose her crackerjack home manager.

²⁸ "The Work & Family Coalition: Better Business for the Future," The Region, Metropolitan Council of Governments, Fall 1990, Vol. 31, No. 2, p. 18.

²⁹ WNVC Television, "Children: Everybody's Business," Channel 56, August 9, 1989.

She nominated him for enrollment at the Curtis School, an exclusive private school in West Los Angeles where her four children were enrolled (and where she was on the board of directors), but he won a scholarship on his own.

Gradually, he became part of the family. He lived with her children, went on ski trips with them, accompanied them on summer vacations.

Today Cano is applying to good private colleges. "He'll get in," says Rogers. "He's a great guy and he's done very well. If he gets into an expensive college, we'll help him apply for financial help and supplement whatever he can't get for himself. Anything that our kids would get, Raoul will get."³⁰

Ironically, the additional training offered as a perk may ultimately raise the nanny's skill level so that she can find a better paying job -- and leave the family's employ. To avoid this possibility, some families pay premium wages -- as much as 50 percent over market -- for loyal, trusted, quality care nannies.³¹

B. Other Costs

In addition to wage and benefits costs, parents incur the cost of finding the nanny. If an agency is used, a placement or finder's fee is paid by the parents, ranging from \$500 to \$2,000 or more. Some agencies offer guarantees, others do not. The range of the service and guarantee generally is reflected in the level of the fee. If the parents locate a nanny on their own -- using nonfee sources such as county referral lists, community and church referrals, public postings at local businesses (e.g., grocery stores), government and hospitals (e.g., National Institute of Health) -- the value of their time must be considered (i.e., the opportunity cost). Out-of-pocket expenses may be incurred if advertisements are placed in newspapers.

³⁰ "Couples Search for Ways to Perk Up Nanny Jobs," op. cit.

³¹ Ibid.

Once the nanny candidates are located -- either through an agency or individually -- time is spent interviewing candidates, evaluating qualifications, checking references, selecting the prospect and designing and negotiating the employment contract. Search costs and transactions costs are incurred. Search costs are those incurred in and locating candidates, screening, interviewing the candidate; checking references; and selecting and hiring the nanny. Transaction costs are the "costs of running the system." They include ex ante costs (costs of drafting, negotiating and safeguarding agreements) and ex post costs (monitoring costs, haggling costs, setting up and running governance structures and bonding costs). These costs are interdependent and must be evaluated jointly (transaction costs are not measured directly).³²

Most parents consider the level of these search costs and transaction costs as they formulate their nanny search and participate in the market.

The Volume of Transactions:

The market transaction involves the purchase and sale of a service -- the provision of child care services in the child's home. And, as described above, the nanny may live with the family or live-out, coming to the home each day to provide care.

There are many transactions in this market. For example, in 1986 in Fairfax County alone, an estimated 13,000 infants to children age 2 required child care services.³³ The most recent Census reports that throughout the United States about

³² Oliver E. Williamson, The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting (New York: The Free Press, 1985), "Transaction Cost Economics," Chapter 1, pp. 18-21.

³³ WNVC Television, "The Child Care Crisis . . . Here and Now," op. cit.

9 million children under the age of 4 require child care because their mothers work. Of the 9 million, about 570,000 are cared for in the child's home by a nonrelative; another 2 million are cared for in another's home by a nonrelative. (See Table 3, above.) Using the Fairfax county estimate of \$6,000 per child per year for a nanny,³⁴ for the 570,000 children requiring care, this yields a \$3.4 billion industry. In terms of dollar volume, the nanny market is roughly the size of the household detergent industry (sales of \$3.8 billion).³⁵

The number of transactions also is high because parents may employ more than one nanny (or use more than one type of child care) in a year. Some families are fortunate to find an individual who stays to raise the children -- a Hariette Grant (the 1990 Nanny of the Year), who has been with the same family for 13 years. More often, there is more frequent turnover for reasons including, among others:

- the nanny is unhappy (no friends, no social life, work hours too long, etc.);
- the family is unhappy (invasion of the family's privacy; contention between nanny and mother; nanny's behavior problems, etc.);
- the child requires different care as he/she ages;
- family finds a more economical arrangement.

The most pervasive problems seem to relate to the employer-employee relationship. It is quite delicate in that working parents are very concerned about the

³⁴ The 1987 SIPP Survey reports the average weekly cost of child care was \$48.50. This number clearly includes all types of child care, ranging from free care provided by relatives to fairly pricey nannies.

³⁵ "Laundry Detergents," Consumer Reports, February 1991, p. 100.

quality of care and, further, have very little experience dealing with child care in an employment context:

"Dealing with in-home help casts many women in an unfamiliar role. Unlike Britain, the United States has no nanny tradition, and the parent-caregiver relationship stretches beyond the boundaries of employer and employee. Few middle-class women grew up with full-time, in-home care, and they stand on shaky social ground, especially when the help lives in."³⁶

The quest for a good nanny is so serious that one journalist joked that at Washington cocktail parties more time is spent talking about nanny searches than telling Dan Quayle jokes.³⁷ This is because regardless of the method chosen for the search (an agency, referral or self-search) the parents' time and participation is required to undertake the search and complete the hiring transaction. More knowledge and exploratory information gained from as many sources as possible can better educate you and lead to swifter success:

The parents out there hunting for care swap tales of lengthy, frustrating searches for someone they can trust and exchange notes on the times things went wrong:

Reed Phillips, a Falls Church father, brought a young woman over from West Germany, only to find she did not know the basics of feeding a baby and only wanted to watch MTV. The arrangement lasted two weeks.

Patricia Esslinger of Chevy Chase hired a private detective to check the backgrounds of prospective in-home child care providers referred by private agencies and found several phony or exaggerated references uncaught by the agencies. She and her husband ultimately found someone through a friend.

Lynn Stone, mother of one baby and expecting a second, flew a young woman into Northern Virginia from Minnesota hoping to hire her as a nanny, but it didn't work out and the woman was sent home. After

³⁶ "In-home child care is booming with our two-income family lifestyle," Newsday, January 14, 1990, p. 10.

³⁷ "The Clandestine Nannies Who Try to Slip Past Uncle Sam," op. cit.

interviewing more than 40 prospects found through referral agencies, she found one she liked and hired her in December.

One Camp Springs, Md., couple with two small children had to fire one nanny who spanked their daughter against their wishes and tried to conceal it from them, and an 18-year-old they flew in from out of town left after one day because she was homesick.

That couple, now in their fourth search for a nanny, in the past had paid more than \$1,000 in agency fees plus air fare. If the child care worker leaves after three months, that investment is gone, said the father, an audio-visual manager for a local organization.³⁸

³⁸ "Nanny Search Has Area Parents Pining for Mary Poppins," op. cit.

CHAPTER II: HOW THE MARKET WORKS

The transaction of a parent hiring a nanny seems quite straightforward. It generally is not . . . and it requires participants in the transaction to be quite resourceful. To study the workings of this market, I interviewed five parents individually,³⁹ interviewed seven parents in a group setting and surveyed 17 parents via questionnaire.

Three of the five parents I interviewed individually decided to search themselves for their first nannies. They felt the search would not be very difficult and they could avoid the agency red tape and fees. They also believed that someone local would answer their needs -- they would not have to advertise across the country. The challenge was how to locate the individual. These parents began their search by asking friends (other mothers in their birth classes or in the neighborhood or at the park), relatives and colleagues for information and recommendations. Two of the three found their nannies -- but in the local illegal market. The third parent ended her search and went to an agency.

The remaining two parents interviewed used only an agency for placements. One hired a nanny who will be shared with another couple, thereby allowing the cost to be shared. In the other instance, the agency placed two nannies (the first ultimately unacceptable, followed by an agency-replacement reported to be outstanding). In the instance mentioned above where the parent ended her individual search in favor of working with an agency, the agency placed a nanny who then lived in South Carolina

³⁹ Jane Platt Brown and Bruce Sloan, former colleagues; Todd Morrison and Richard Rozek, colleagues; and Kathy Burke, a neighbor.

and met all of the parents' requirements (suitable background, fluent English, etc.). The family paid the agency fee and paid for the nanny's flight and move to Washington, D.C. She worked for the family for six months, went to South Carolina for Christmas and never returned (she never resigned either). This parent decided then that if the employment relationship was likely to work this way (her experience was echoed by other mothers) and she was to be a repeat player in this market, she would handle the search herself; rather than repeatedly pay agency fees, she would learn how to perform the agency's services herself. She independently located her next three nannies (the second stayed 6 months, the third stayed 2 months and the fourth stayed about 3 months) for her 16-month old daughter; when the fourth nanny did not work out, the mother decided to enroll her daughter in a child care center near her office (by then her daughter was old enough to be accepted by the center).

In each of these five searches, the parents had to participate in the search -- at a minimum, by interviewing prospective candidates and making the selection decision. In fact, all of the five were very involved in the search. Each had developed an individual list of questions. Each was looking for someone whose attitudes and morals/outlook/approach was most like theirs. Most made decisions based on "gut reactions," supplemented by some reference checking.⁴⁰ In one instance, the parents not only interviewed the nanny applicant but also asked to speak with/interview the applicant's mother, to probe further about the applicant's upbringing, values, habits, etc.

⁴⁰ More recently, as the popular press reports stories of child care providers with many aliases and related criminal records, police/security background checks have become a very important part of the typical application process, whether handled by an agency or individually. American Security Services Corp. (AMSEC) located in Middleburg, VA, performs such checks, at an average cost of \$65. ("The Newfangled Nannies," op. cit. p. C8.)

In another, the applicant's references were not sterling, but the parent reacted very favorably to the applicant in the interview; she was hired in spite of her poor references.

The seven parents I interviewed in a group setting⁴¹ used a variety of child care arrangements, depending on the number of children and their ages. Two parents, each with two children, employed nannies; one parent paid the nanny \$50 per day, the other paid \$60 per day. One parent arranged for a friend to care for her child and would not consider leaving her child with someone she did not personally know. One parent took one of her children to a child care center in Vienna, Virginia and the other to a provider in Arlington, Virginia (about 10 miles away) because the center could not take the second child until very recently; she also felt different arrangements were best for each child at their different ages. One parent used group care. Two parents use child care centers; one commented that child care centers usually have waiting lists.

These seven parents agreed to complete survey questionnaires, with anonymity. They also distributed questionnaires to others not at the meeting. The 17 questionnaire responses are included as Appendix A.

Of the 17 respondents, six located their providers/arrangements through the newspaper, six found theirs through a friend or relative, one found her provider through a local condominium bulletin board, one through an ad in her community, one through a referral listing prepared by the National Association for the Education of Young People, and two through schools.

⁴¹ The New York Avenue Parents Group at the U.S. Department of Agriculture meets monthly to discuss parenting issues and concerns. On Monday, February 4, 1991, seven parents attended the meeting.

The factors important to these parents varied. However, quality of care and reliability were ranked as "most important;" cost and convenience were ranked "somewhat important."

From these questionnaires it is apparent that perspectives about child care vary widely. All recognize the importance of and the burden of the search. Most parents do not have written contracts with the provider. However, the employment contract is implicitly negotiated during the search process. Certainly, by the time the nanny-of-choice is selected, the family's expectations should be clear, as should the nanny's willingness to meet those expectations.⁴² An explicit agreement or understanding about the major points (e.g., salary, pay interval, use of car, vacation) is reached but few parents were concerned about having a written contract specifying the details of the agreement. This approach is parallel to that observed by Coase in describing agreements where the hope is for a long-term relationship: ". . . the service which is being provided is described in general terms, the exact details being left until a later date."⁴³ This leaves much room, however, for misunderstandings and disappointment on both sides of the employment relationship.

While the details of each negotiated agreement differ, trouble reportedly develops typically over issues about the length of the workday, the degree of privileges (e.g., use of car, telephone, having visitors during the day, etc.) and the amount of housekeeping involved (e.g., cleaning the entire house versus cleaning the child's room; cooking meals

⁴² In contrast, the British emphasize the importance of having the arrangement made explicit in a contract and continually updated. "A Norland girl, who never works without a Contract, is drilled to renegotiate annually." ("Cast off the shackles, low-pay nannies told," Sunday Telegraph, January 7, 1990, p. 8.)

⁴³ Ronald Coase, "The Nature of the Firm," Economica, Vol. 4, 1937, reprint, p. 76.

for the entire family versus preparing meals for the child). When problems arise, both the employer and employee seem more willing to sever the relationship (which, obviously, requires starting the entire search process and transaction over again) than to work out problems. The reasons underlying the termination decisions generally are not economic, but rather psychological and social. Logic suggests that if good nannies are scarce and very expensive, one might have to cultivate an affordable nanny; and cultivation takes much time, patience and investment in training. Using the parallel of the employment relationship, employees generally are not fired after making one mistake or showing poor judgment; they are counseled and trained to perform to expectations. However, in the nanny relationship, all of this must occur in your home, with your possessions and with your child's care in the balance. Parents take their responsibility very seriously and are more likely to sanction than train. On the other side of the equation, because the nanny knows there are plenty of other positions available, she is less likely to accept expectations and criticism she feels are unreasonable.

When the relationship dissolves, the search begins again. The players now each are a little more experienced and knowledgeable. As a repeat player, some time may be saved by operating with an expanded information set, but the search process remains essentially the same.

CHAPTER III:

WHY THE MARKET WORKS AS IT DOES -- CONTRACTING ISSUES

Given the nature of the market demand and labor supply, the nanny employment transaction involves asymmetric information, significant search costs and transactions costs, and much uncertainty and risk. Indeed, nannying today has been described as "what secretarial work was 20 or 25 years ago for girls not going immediately to college"⁴⁴ -- suggesting that there are many candidates with little discernible differentiation in skills. Parties to the transaction seek ways to limit the uncertainty and risk and reduce their costs.

Information Asymmetry

Each side of the employment transaction participates with less than full information about the market and the other party. In this regard, the nanny market is no different than other employment markets. The nanny applicants are somewhat better positioned than the family, because the core job responsibilities are known (continuing the analogy to secretarial positions, a secretarial applicant generally knows the basic skill requirements); a good interviewer explains and explores the particular additional or different requirements of the position and will restate for mutual benefit the basic "assumed" duties. The family, on the other hand, is operating with less information. The applicant provides qualifications and reference information and the family must verify its accuracy.

⁴⁴ "Nannies Crop Up From Heartland," The Washington Post, June 25, 1990, p. D1.

As revealed in my interviews with parents, most made their hiring decisions based on instinctive reactions to applicants. These instinctive reactions are formed during the screening and interviewing processes, as information is exchanged by the parties about themselves and the job. Information also is conveyed by the candidates' personal characteristics and revealed attitudes. All of this information -- education, experience, sex, race, personal appearance, attitude -- may be signals.⁴⁵ While the family does not know everything about the applicant at the end of the interview, the observable characteristics provide a lot of useful information.

The parent can assess the reliability of the information and make selection decisions. Because uncertainty remains, the parent is essentially purchasing a lottery: Will the nanny prove to be competent, work well and meet the family's expectations? Will the nanny shirk her job responsibilities? Will she perform well but stay only a short time? Probabilities can be associated with the various lottery outcomes -- that is, the conditional probability that the candidate will succeed given the set of observable signals. The range of outcomes and the associated probabilities will be affected by experience in the market and the knowledge gained from repeated transactions.⁴⁶

The parents I interviewed endorse the notion that much information is gained from signals and by experience in the market. They suggest that while the same process followed in the first search is followed in subsequent searches, the signals are

⁴⁵ A. Michael Spence defines four categories of characteristics (p. 10): potential signal: an observable alterable characteristic; potential index: an observable unalterable characteristic; actual signal: a potential signal which affects an employer's conditional probability assessments of productivity; and actual index: a potential index which affects an employee's conditional probability assessment of productivity.

⁴⁶ A. Michael Spence, Market Signalling, Informational Transfer in Hiring and Related Screening Processes (Mass.: Harvard University Press, 1974), pp. 7-8.

evaluated differently. As a result, the conditional probabilities change and the outcome chosen may be different (i.e., last time I chose someone whom I felt would be adequate but would stay a long time; this time I want the best nanny, even, if she only stays 4 months).

Some characteristics -- such as appearance and attitudes -- can be manipulated; others such as level of education cannot. Applicants may attempt to alter certain observable signals and in doing so, affect the parent's conditional probabilities and lottery outcome.

In the nanny market, the value of the information exchange seems to be in the screening and selection process -- narrowing the candidates to the one of choice. The value is not in determining the wage level; that is, from my interviews with parents, the wage level was set (with some modest flexibility) in advance and the search process was designed to find the best person for that wage. The financial constraint is driven in large part by the long work hours required of the nanny, the significant expenditure which results and the limits of the family budget.

Search Costs and Transactions Costs:

The search process is centered on the pursuit of information. In most searches, parents turn to friends, relatives and associates to provide referral information about job candidates or about agencies. In this sense, the service of providing child care has a characteristic of a "reputation good;" that is, ". . . consumers' search among sellers

is conducted primarily by asking relatives, friends and associates for recommendations.⁴⁷

Other sources of information are county-sponsored and state-sponsored agencies (e.g., the Fairfax County Office for Children), organizations and programs designed to gather and disseminate general information (Children's Defense Fund). These sources do not rate or endorse any individuals on any lists, nor do they perform any placement or employment functions. Other organizations will post your job description or advertisement, acting as a local "bulletin board" (e.g., the National Institute of Health).

In response to a perceived need for still more information and lower search costs, nanny agencies entered the market. There currently are over 200 employment agencies in the United States that place nannies.⁴⁸ Some act only as a matching or placement service; some provide ongoing contacts and counseling with the nanny placed and with the family; some provide extensive background and reference checks; some recruit candidates throughout the country; all tend to provide advice.⁴⁹ Generally the parents can give the agency a "wish list" for their ideal nanny, specifying preferences regarding race, language proficiency, smoking, etc., and the agency will search their pool of candidates accordingly.

Agencies seem to have certain advantages in locating job candidates resulting from economies of scale or scope. Placing classified advertisements in newspapers, locally

⁴⁷ Mark V. Pauly and Mark A. Satterthwaite, "The pricing of primary care physicians' services: a test of the role of consumer information," The Bell Journal of Economics, Vol. 12, No. 2, 1981, p. 488.

⁴⁸ "Hunting Nannies in Mellow Midwest; Competition is fierce to recruit wholesome young adults to care for New York kids," Newsday, February 27, 1989, p. 1.

⁴⁹ "Helping Parents Enlist Nannies," Business New Hampshire, Vol. 5, No. 7, July 1988, p. 50.

or in other areas of the United States, can be very expensive; agencies may have the advantage of being a repeat customer or a large customer, thereby achieving a discount in the purchase (a cash discount, or lengthening the run period at no charge). The agency may know which newspapers should be targeted in which cities; they may be better able to evaluate the relative value of advertising in local newspapers versus the large daily newspaper in an area. Because agencies place numerous ads (certainly more ads than an individual would place), they can determine what specific language used in the ad has achieved the best response (in level and in quality).⁵⁰ Many agencies now advertise as recruiters -- in the Yellow Pages nanny agencies are included under "Employment Agencies" (to attract nanny candidates) as well as under "Day Care/Nurseries" (to attract parents).

Agencies' recruiting efforts produce a ready stock of nanny candidates to respond to demand; moreover these efforts remove regional constraints from the labor supply -- for example, American Nannies (Silver Spring, MD) recruits and has an office in Montana. Some agencies send scouts across the country, seeking out and interviewing candidates willing to move to urban areas in the East, such as New York City and Washington, D.C. These scouts are aware of which cities produce good responses to their ads. A recruiter may visit several cities, holding information seminars and interviewing in hotels to recruit applicants for placement. Recruiters often go to college towns searching for drop-outs from the child development/education

⁵⁰ One parent interviewed has advertised in daily newspapers in Oregon, Montana and Pennsylvania, in The Washington Post, and in local Montgomery County weeklies. She believes her best responses have come from very general ads -- no specifics of the duties, no wage mentioned, etc.

I have heard anecdotes of parents including phrases in ads which would act as a selection filter -- if the reader did not understand the phrase, he/she would not respond to the ad.

programs. One such recruiter explained that she routinely travels to recruit; an average trip may cost \$1,700 which can be recovered by two successful one-year placements.⁵¹ These are costs and a level of search that cannot easily be undertaken by the typical working parent.

Most nanny agencies realize that the family and nanny are likely first-time players in this market -- or perhaps frustrated frequent players. They know that the product at issue is not a good which can be examined prior to purchase, with a manufacturer's guarantee/warranty and a Consumer Report's rating. They know that the service largely affects the infant, who cannot report verbally on its care. They know that the hiring of the nanny is of great importance and concern to the parents. They know that the nanny may not negotiate a contract which results in fair payment, given the hours of work required. By acting as the knowledgeable intermediary, the agency provides additional information to the parent and to the nanny and may limit the search costs and transactions costs.⁵² In many instances nanny agencies are founded

⁵¹ "Hunting Nannies . . .", op. cit.

⁵² The use of a nanny agency is similar to the use of a real estate agent in a home sale/purchase. First, because the buyer and/or seller likely (but not always) are infrequent players in the market, there is much unfamiliar information one or both parties must master. Second, the transaction at issue is very important to all the parties -- in real estate, generally the transaction involves your largest financial asset; in hiring a nanny, the transaction involves the care of your most valuable "asset" and an ongoing and substantial financial commitment. Third, there is much specialized information which must bear on the transaction -- in the real estate transaction, the financial and legal requirements are myriad and complicated; in hiring a nanny, you become an employer and must assume certain reporting responsibilities and liabilities.

by a parent who experienced the frustration and fatigue of the search and believed she could provide a valuable service based on that experience and knowledge.⁵³

The parents' decision about whether to use a nanny agency often is dependent upon a calculation of avoided cost -- how much can the family save in search costs, transactions costs and opportunity costs by paying an agency to perform services and functions the family otherwise would have to perform and at which the family has no comparative advantage. Indeed, as Pauly and Satterthwaite suggest in the primary medical care/physician services context, as the strong demand for nannies draws additional nanny-candidates into the market, buyers have less information about them and have a more difficult time searching through the candidates; and, as the search becomes more difficult, buyers become less price sensitive.⁵⁴

Different parents' calculations of avoided costs yield different results. Some determine that by using an agency they are avoiding very little cost, since they still must incur search costs and transaction costs, as they define the job, interview applicants, negotiate the agreement, monitor the nanny's performance, handle the federal reporting and tax requirements (which are significant)⁵⁵ and learn from each search and transaction to be prepared to begin the process again if and when the nanny leaves. Any bonding costs incurred also are transactions costs; for example, a

⁵³ "Necessity Creates Nanny Business," The New York Times, March 26, 1989, p. 15. Leslie Sullivan and Ronna Rollins founded Nannies for You, Inc.; Sherry Riflin founded Domestically Yours, Inc. The owners of these agencies saw a market opportunity: "So what do you do when you are in desperate need of something that cannot be found? You do what any enterprising American would do: you start your own business and make some money to boot."

⁵⁴ Pauly and Satterthwaite, op. cit.

⁵⁵ At the recent nanny convention, Advantage Payroll advertised its direct deposit of wages and tax form service for \$8.25 per week. ("The Newfangled Nannies," op. cit., p. C-8.)

family may pay the nanny a premium wage in order to encourage loyalty to the family, and discourage turnover.⁵⁶ Some parents value highly any contribution an agency can make in reducing search costs and transaction costs activities. Clearly, whether an agency is used depends on the agency's fee structure, the replacement or guarantee the agency may offer and how the parents value their time.

Risk and Uncertainty

The employment relationship is fraught with uncertainty and risk. Because the demand is so strong and because these nannies are relatively mobile, the risks seem to be borne by the family. These risks include the quality of the care that is provided, the length of the employment commitment and the level of effort expended to be compatible with the family. In this market, the two ways to reduce and perhaps to equalize the parties' risk and uncertainty are (1) to use an agency to provide more detailed screening service and some replacement guarantee and/or (2) to contract with incentives designed to elicit high-quality performance.⁵⁷

The agency's exposure to risk is limited to whether a family or a nanny will recommend use of that agency to others and/or whether a family will complain to a

⁵⁶ "Incumbent employees who have specific training become valuable resources Turnover is costly, since a similarly qualified but inexperienced employee would have to acquire the requisite task-specific skills before he would reach a level of productivity equivalent to that of an incumbent. A premium is accordingly offered to specifically trained employees to discourage turnover, although in principle a long-term contract would suffice." Oliver Williamson, Michael Wachter and Jeffrey Harris, "Understanding the employment relation: the analysis of idiosyncratic exchange," The Bell Journal of Economics, Vol. 6, 1975, reprint, p. 136.

⁵⁷ As Knight suggests there is "[t]he possibility of thus reducing uncertainty by transforming it into a measurable risk" [Frank Knight, Risk, Certainty and Profit (New York: Houghton Mifflin Co., 1921, 1957, excerpt p. 61).]

government agency about the nanny agency's poor service. The agency seeks to reduce this risk by limiting the service it provides. In all of the arrangements I explored, the agency acted only as a matching or placement service. While the agency cannot guarantee the nanny's performance, it generally can offer a supply of candidates should your nanny not work out and, consequently, a speedy replacement (whether you pay another fee may depend on how long the first placement lasted). Further, the agency can do several things to reduce the risk of a mismatch:

- perform a fairly extensive background check on the applicant, including a check of police records and, in Virginia, the Virginia Child Protection Services Registry;
- certify that the applicant knows CPR or offer training in CPR before placement;
- monitor the placement, by calling you weekly to determine your level of satisfaction and, separately, call the nanny weekly to determine hers;
- organize activities for nannies they have placed, so that the nannies develop a peer group and are less likely to become homesick and disgruntled.

All of these activities are designed to promote good placements from the outset and to ensure that the employment relationship is successful. Agencies further share risk with the family by charging a fee for services. Part of the fee paid by the family relates to the reduction of the family's uncertainty and risk and part also covers the family's avoided costs.

The second vehicle to reduce risk and uncertainty is the contractual employment agreement. Very few parents actually execute such a contract with their nannies. Their reasons include:

- "Contracts are complicated and my nanny wouldn't understand it, so why do it?"

- "My nanny doesn't understand much English, so she wouldn't understand this contract."
- "These contracts are not enforceable, so why take the time to hammer one out."
- "I don't want the care of my child to be reduced to a business -- a written contract."
- "Contracts can work against you -- if I forget to put a particular task in the contract, I can't insist it be done."
- "If the responsibilities of her job change or evolve, I'd have to keep rewriting a contract."

Indeed, hiring a nanny seems to be a market transaction where the process of contracting is carefully considered and undertaken, but the end-result of that process is a fairly informal employment agreement.⁵⁸

The parents rely on the nanny's reputation and their evaluation of and instincts about her abilities to provide quality care. To encourage good performance, the employment agreement must include incentives (scheduled performance reviews and associated wage increases; provision of additional benefits, such as two weeks paid vacation after one year of employment; additional privileges); further, the family must monitor the nanny's performance and must invest in some measures to prevent problems (e.g., encourage socialization to prevent boredom; encourage training as necessary). This type of incentive contract arrangement requires a significant investment of the parents' resources with virtually no assurances of success.

When employing a nanny, the family must cope with and resolve problems created by nonperformance. For example, what happens when the required reliable care is not

⁵⁸ Certain government-sponsored programs, such as the Au Pair program, and child care centers require contracts.

provided because the nanny is ill? Is she to provide a substitute (i.e., bear that risk)? Generally no, because she has no labor pool from which to draw a substitute. Instead, the parent substitutes and misses work, or relies on emergency child care options the parent (not the nanny) has developed -- e.g., a relative, an employer-provided emergency day care center. Nannies may be paying the family a fee to bear this risk by working for a relatively low wage.

Further, to obtain adequate child care and subsequently to keep the nanny, buyers often bid away many of the performance issues -- from the outset nanny candidates may be offered paid sick leave, medical insurance, paid vacations, payments for overtime, a bonus for unusual commitment, etc. Offering these benefits plus payment of premium wages insures the parent against experiencing recurring search costs and transactions costs.

CHAPTER IV: EFFORTS TO ACHIEVE MORE EFFICIENT SOLUTIONS

As with other markets, institutions have evolved and continue to evolve in attempts to improve the flow of information, reduce search costs, transactions costs, uncertainty and risk in the nanny market.

A. Academic and/or Training Certification Programs

Academic programs, generally leading to a certificate in child care, have been developed at various colleges. These programs seek to provide training and an easily identifiable credential (the certificate) to nanny candidates. The California Nanny College, in Sacramento, is a private, nationally accredited nanny school offering a 15-week training program.⁵⁹ Northern Virginia Community College offers a 50-hour program which leads to a certificate or can be applied toward a degree program in early childhood education; the program is certified by the American Council of Nanny Schools. Interest in such training exists at other colleges and community colleges -- over 30 have asked NOVA for its curriculum.⁶⁰ Other nanny training programs include those offered at the Eastern Iowa School for Nannies in Le Claire, Iowa, The National Academy of Nannies in Denver, Colorado, the Midwest Nanny Academy, the New England School for Nannies, the one-year child development program at the Des Moines Area Community College and a six-month Professional Nanny Training Program in Louisville, Kentucky. These programs include courses in

⁵⁹ "The New Breed of Nanny: Have Diploma, Will Travel," Los Angeles Times, May 29, 1988, p.3.

⁶⁰ "NOVA's Nanny Program Produces 1st Graduates," The Washington Post, October 5, 1987, p. D3.

child development, CPR, childhood diseases and, interestingly, contract negotiations and assertiveness training.⁶¹

There is some controversy concerning the necessity for this type of training. Critics of these programs argue that prospective nannies should not have to pay \$2,500 or more⁶² for training because the care-provider field offers low pay, no status and no advancement.⁶³ Proponents suggest that this level of investment in training is minimal and it suggests that the candidate is serious about the employment endeavor. From the parent's perspective, it is a way to easily differentiate candidates, thereby reducing the uncertainty and risk concerning the nanny's commitment and the quality of care. From the nannies' perspective, this investment shifts some additional portion of risk to the nanny, who must compete for the higher paying nanny positions in order to recoup the investment (i.e., with a differentiated or premium product -- a qualified, certified nannies -- she may command a premium wage).⁶⁴

⁶¹ "Nanny School Comes to Central Iowa," Business Record, March 16, 1987, Vol. 83, No. 11, p. 2; "Need for Nannies Increases, but They Don't Do Windows," op. cit.; "Men Finishing Training at a School for Nannies," The New York Times, November 30, 1989, p. 9; "Working Mothers Put Nannies in Great Demand," Los Angeles Times, December 17, 1989, p. 23.

⁶² "New Breed of Nanny: Have Diploma, Will Travel," op. cit.; "Men Finishing Training at a School for Nannies," op. cit.

⁶³ In Spence's signalling context, the nannies would be overinvesting in education in order to offer the correct signal.

⁶⁴ This situation is somewhat parallel to the paralegal market. Years ago, when attorneys realized profit could be made by having lower paid paralegals perform routine work then being done by attorneys, the demand for paralegals increased dramatically. Initially there were few training programs. To respond to the demand and to differentiate paralegal candidates, training programs were developed (for example, the program offered by The Paralegal Institute). Paralegal candidates paid for this training and, upon completion of the program, were certified. Many law firms require that their paralegals have this training. The certification, at the candidates's expense, is the credential that differentiates that applicant from others.

Initially, NOVA found it difficult to attract students for its nanny training program because of the tuition payment. NOVA recruited students from low-income mothers of children in the Head Start program and teen-aged mothers. Tuition costs were covered by government programs; the goal was to train these mothers as child care providers, to earn enough to be self-sufficient.⁶⁵

Prospective certification program students now attract both men and women. Mr. Aaron Stack was the New England School for Nannies' first male graduate, completing the 3.5 month program in December 1989. In part, this reflects the characteristics of the market -- a high school graduate was attracted to nanny positions by the relative high salary and benefits offered to someone with no extensive training.⁶⁶

B. On-The-Job Educational Opportunities

Another type of educational program has been proposed in a seminar format to encourage working nannies to improve their English language skills. This is particularly beneficial for Au Pairs and other foreigners for whom English is a second language. The emphasis on language reflects its critical role in ensuring the proper development of children:

Language development begins from the moment of birth. The critical time is from then until about the age of five. That's when the child is soaking up single words, constructions, syntax and the rhythm of the language. One very, very important level of language acquisition has to do with when the child is ready to absorb tenses, pronouns, plural endings, -er's. It's the acquisition of those tiny little endings to words that opens the door to

⁶⁵ "NOVA's Nanny Program Produces 1st Graduates," op. cit. This, clearly, is a government response with mixed goals. Since the child care profession is not a highly paid profession (some, but not all, nannies can command premium wages), it is unlikely that these single mothers will earn enough to be self sufficient. If this is the case, the government takes on yet a different child care burden -- providing child care for these mothers' children while they are taking care of other people's children.

⁶⁶ "Man Finishing Training at a School for Nannies," op. cit.

categorizing - the difference between one and many, between the present and the past. They are the building blocks for being able later to think in an analogy.

Where do most people practicing a foreign language make most of their mistakes? Figures of speech, irregular endings, plurals, verbs, pronouns, subject-verb agreement and endings of degree. What we see over and over again are apple-checked children some of them with trust funds, whose language has been nourished by somebody who speaks English poorly, with limited vocabulary and with inaccurate endings. The child, of course, soaks up some correct constructions from the parents and other kids, but the English is weak of the child who has been raised by someone whose English is poor.⁶⁷

Increasingly school systems recognize the prevalence of nannies and the important role nanny plays in the child's development. Many schools are inviting nannies to participate in certain school activities.⁶⁸ The ultimate goal is to better educate the child: if the nanny primarily cares for the child, she must know what day is slated for "show and tell" so that her charge is prepared, what vocabulary the child should develop, and what self-reliance skills should be taught.⁶⁹

The success of this type of program is unclear. Parents seem to resent including nannies for several reasons, including (1) resistance to sharing this responsibility with a helper, (2) trepidation about what the nanny might say in public about the household and (3) parental guilt about being a working parent and having a nanny. Nannies seem to be reluctant to participate for many reasons as well, including (1) they may be embarrassed if they do not speak English well and (2) they may not perform well

⁶⁷ "Making Nanny a Partner in Schooling," The New York Times, November 19, 1989, Section 12WC, p. 3.

⁶⁸ "Schools Involve Nanny in Child's Education," Los Angeles Times, May 24, 1989, Metro Section, p. 1.

⁶⁹ "Nanny-Teacher Days are Important, Too," The New York Times, September 3, 1989, Section 12CN, p. 28.

and hence may be thought unfit to be nannies.⁷⁰ In either case, the focus is on individual exposure and not on the possible benefit of such a program to the child.

. . . "[S]chools and parents could do a better job for the kids they all care about if nannies, au pairs - whatever we want to call them - were included in some of the professional discussions and were fuller partners in the interface between school and home [T]hey are not; therefore the child frequently has one code of behavior, rules and expectations at school, one when the parents are home and a third act when the nannies are in charge."⁷¹

C. Trade Association

Nannies have a trade association -- The International Nannies Association, which provides information about being a nanny, a directory of the member agencies and public relations-type information for the profession. Approximately 600 nannies, 270 agencies and recruiters and 40 educators are members.⁷² Nannies pay \$65 per year and others pay \$95 per year as membership dues.⁷³ Much of the recent growth in association membership is due to a group health insurance offering to the INA's members.⁷⁴

D. Industry Newsletter

In April 1989, Jack & Jill Enterprises, a private company, began publishing "Nanny Times," a biweekly newsletter to provide information to the professional nannies and families searching for them.⁷⁵ Initial controlled circulation was 20,000. The market

⁷⁰ Ibid.

⁷¹ "Making Nanny a Partner in Schooling," op. cit.

⁷² "N.Y. Nannies Wield Powers Mary Poppins Would Envy," op. cit.

⁷³ "A Tribute by Nannies To One of Their Own," The New York Times, July 5, 1990, p. 1.

⁷⁴ "The Newfangled Nannies," op. cit.

⁷⁵ "Nanny Times," Advertising Age, March 20, 1989, p. 58.

acceptance of the publication was so strong that it went national with the third issue⁷⁶ By October 1989, the newsletter had become a monthly magazine published nationally with 85,000 circulation (although most readers are on the East Coast). It has become a "guide to finding, employing and training nannies."⁷⁷ The content of the newsletter covers child psychology, first aid, nutrition, safety as well as articles about interviewing, help wanted ads, and position wanted ads.

This newsletter-turned-magazine clearly is an effort to improve information flows between nannies and parents via the print media.

E. Support Groups

Motivated organizers are forming support groups, to provide a forum for nannies to meet other nannies, socialize and interact with others with similar interests and problems. Groups such as the New Jersey Nanny Society, formed in 1988, are responding to the common complaint of isolation, boredom and poor self image.⁷⁸

Again, the formation of these groups allows information and experiences to be shared. By discussing and comparing situations, a nanny will learn whether her working conditions or wages are atypical or her family's expectations are unreasonable. Similarly, training-type information easily can be communicated to the group.

⁷⁶ "Working Mother Scores Hit With Nanny Magazine," Los Angeles Times, December 26, 1989, p. 7.

⁷⁷ "Nanny Times Hits Home," UPI, October 9, 1989.

⁷⁸ "Jersey Nannies Organize for Status and Friendship," The New York Times, October 30, 1988, p. 56.

Other Developments:

A. Business Participation

Businesses are taking a key role in shaping a solution to the child care problem. The underlying rationale is that businesses should devote resources to solve this problem because businesses benefit from the solution: women remain in the workforce, worker productivity increases, absenteeism decreases⁷⁹ and, in some instances, promotion or transfer turn-downs and termination decisions related to child care problems are avoided. Increasingly these problems are experienced by fathers, as well as mothers.⁸⁰ By becoming involved, businesses take on some of the risks and liabilities previously shared only by the parties to the transaction.

Businesses have become involved in child care in several ways -- some very conservative, some more aggressive. Companies can offer an employee a benefit related to child care, such as flex time options, access to an information referral service and/or a child care voucher. For example, two office furniture manufacturers -- Haworth, Inc., in Holland, Michigan, and Steelcase, Inc., in Grand Rapids, Michigan -- offer child care referral and information programs to their employees. Under these programs, their employees contact a child care office to obtain information, lists of names and referral to pre-screened care providers.⁸¹ Marsh & McLennan (a large international insurance broking firm with various

⁷⁹ In 1988, child care related absences cost businesses an estimated \$3 billion. ("Hassled by the Stay-At-Homes," Management Review, American Management Associations, February 1990, p. 5.)

⁸⁰ WNBC Television, "Children: Everybody's Business," Channel 56, August 9, 1989.

⁸¹ "Kidding aside: parent assistance is better business; Company sponsored childcare programs' benefit," Modern Office Technology, Vol. 33, No. 4, April 1988, p. 66.

subsidiary interests) offers a similar referral program;⁸² it also offers some limited financial assistance through another benefit called a Flexible Spending Account, where employee pre-tax contributions can be used for out-of-pocket expenses incurred for child care, elder care, and/or medical expenses not covered by the medical plan -- the tax advantages of the reduction of your taxable income by the amount of your child care expenses helps reduce the burden of your overall child care costs.

Another type of response is business sponsoring an emergency child care center on the job site, generally funded entirely by the employer. Several law firms in Washington, D.C. (for example, Williams & Connolly) have such centers. They are designed to care for children when the regular care provider cannot. Parents respect the emergency-nature of the center. The goal clearly is to reduce absenteeism by providing a fall-back option to employees.

A variation on this theme is law firms that provide Saturday morning care for employees who have routine child care Monday through Friday, but not on Saturday morning.

Some businesses provide on-site child care centers to their employees as part of the company's benefits package.

- SAS Institute, in Carey, North Carolina, operates a child care facility (including infant care) for its employees' children because, according to its president, David Russo, the company believes that its workers are more productive, content and stay on the job longer (reducing turnover and training

⁸² Marsh & McLennan Companies, Inc.'s Child Care Resource and Referral Program.

costs to the company) when they are content with their child care arrangement.

- Neuville Industries, a hosiery manufacturer in Hildebran, North Carolina, recognized that its work force was predominately women aged 18 through 35 -- women with children or likely to have children. To differentiate Neuville from other mills and to give it an edge in hiring, the company established a day care facility (including infant care). This is seen by Neuville employees as a very attractive benefit and by the company as its competitive edge.⁸³
- Stride-Rite operates an intergenerational center at its headquarters in Cambridge, MA. The center has capacity for 55 children (15 months to 6 years old) and 24 elders (age 60 and over).⁸⁴
- Recently, IBM has announced plans to build on-site child care centers. It will spend about \$400,000 to build and operate centers in the Washington area; 28 of the 58 spaces are guaranteed to IBM employees. In 1991, IBM plans to build similar centers near its facilities throughout the country, at an estimated cost of \$3 million.⁸⁵
- Last Fall, Marriott Corporation opened a center to provide care for infants and toddlers.⁸⁶ The 63 places are guaranteed to Marriott employees, and

⁸³ WNBC Television, "Children: Everybody's Business," Channel 56, August 9, 1989.

⁸⁴ "Keeping Kids at Work," op. cit.

⁸⁵ "IBM to Build Day Care Center," Washington Business Journal, December 17, 1990, p. 15.

⁸⁶ "Hotelier Opens Care Center for Employees Children," Washington Business Journal, November 5, 1990, p. 15.

Marriott co-pays the expense: \$160 per week for infants, \$110 per week for toddlers.

- In May 1990, Johnson & Johnson opened a 26,000 square foot child care facility at its Brunswick, N.J. headquarters. The 200 places are guaranteed to its employees. Johnson & Johnson co-pays the expense; employees must pay \$110 to \$130 per week.⁸⁷

The consortium approach also is available for businesses who wish to share the liability associated with establishing a corporate-sponsored program as well as the search costs and transactions costs of finding, hiring and employing nannies. By jointly sponsoring day care, businesses pool their risk and the financial burden. In Atlanta, five companies -- First Atlanta Bank, The Atlanta Journal and Constitution, The Federal Reserve Bank of Atlanta, George-Pacific and Rich's Department Stores -- have jointly sponsored a downtown child care center for their employees.⁸⁸ In Tysons Corner, VA, a consortium of smaller businesses jointly sponsor the Tysons Corner Play and Learn facility.⁸⁹ Westfield's Play and Learn Children's Center, located in the Westfields Office Park (Chantilly, VA), is sponsored by the property developer and a group of 10 companies for their employees.⁹⁰

Another "business response" is of the entrepreneurial variety: individuals who recognize an unmet demand decide to set up a child care center. The Small Business

⁸⁷ "Oh Baby, On-Site Childcare Coming Out of the Dark Ages," Advertising Age, February 25, 1991, p. 24.

⁸⁸ Ibid.

⁸⁹ WNBC Television, "The Child Care Crisis," op. cit.

⁹⁰ "Near-Work Care: Welcome Site for Parents," The Fairfax Journal, February 27, 1990, p. B-1 and B-3.

Administration offers a manual to guide these entrepreneurs through the start up. The difficulty lies in achieving success: the center must simultaneously meet "the financial risks, the psychological juggling act required to coordinate the interests of parents, staff and children, and the need for educated personnel."⁹¹ Further, building centers to code is very expensive because there are strict zoning, fire, health and safety and licensing codes; a 5,000 square foot center which would accommodate 110 children recently cost more than \$300,000 to build.⁹²

B. Landlord Participation

Business representatives I have spoken with about child care suggest that child care centers should be sponsored by office building owners and landlords rather than by a company. The rationale is that child care is a service many tenants could benefit from and the risks would be pooled across a multi-tenant population. The landlord would operate the center, just as it operates the building, and prorate the expense to the tenants and other users. The National Association of Office and Industrial Parks (NAOIP) -- a group representing commercial builders -- has a clear directive to include child care centers in new construction/office parks as they are planned.⁹³ And, local governments are encouraging developers to include child care centers in commercial and office space; for example, developers in the District of Columbia can qualify for bonus density if their project includes a child care center.⁹⁴

⁹¹ "Entrepreneurs Find Day Care Isn't Child's Play," Washington Business, June 11, 1990, p. 6.

⁹² Ibid.

⁹³ Ibid.

⁹⁴ "Diapers, Pin Stripes Mix as Day Care Moves Downtown," The Washington Post, July 1, 1990, p. D4.

Landlord participation is not a new idea. A Child's Play center operator looked for downtown space in 1982 and developers and landlords were not interested. Child's Play finally opened in 1984 in the basement of the Solar Building (1000 16th Street, N.W., Washington). It closed in 1988 unable to handle downtown rent of \$14,000 per month and high operating costs.⁹⁵

Increased interest in child care convenient to downtown offices and the recent softening of the commercial real estate market have combined to produce opportunities for child care centers, landlords and developers to jointly establish downtown centers. Recent examples in the Washington area include:⁹⁶

- Child's Play: (1) a 12,358 square foot facility at the Herald Square Building (New York/13th/H Streets, N.W. Washington)⁹⁷; and (2) a center in Rosslyn, VA licensed for 140 children; the developer of the building contributed \$1 million to build the center.
- Kid's First: opened in January 1990 at 1015 K Street, N.W.; the developer of the building offered an "incredible amount of financing."
- A center will open at Oliver Carr's Metropolitan Square Complex (15th and G Streets, N.W.)
- The Kaempfer Co. has leased space to The Learning Centers in its buildings at (1) 1250 24th Street, N.W. and (2) 1201 New York Avenue.

⁹⁵ Ibid.

⁹⁶ Ibid.

⁹⁷ Washington Business Journal, November 19, 1990, p. 2.

- Blue Cross and Blue Shield has requested a child care center in the Rouse Co. office complex it will move about 3,500 employees to eventually.
- The London Leeds Development Co. built a 10,000 square foot child care center in its Ballston Station (Arlington) complex to attract tenants.⁹⁸

Typically, these developers lease space to center operators at below market rates. In some instances there are significant financial concessions: one developer spent \$600,000 converting basement space into colorful playrooms for a center; periods of free rent may be offered. The cost of starting a child care center in downtown Washington is estimated to be \$500,000.⁹⁹ If the center leases retail space, the retail lease generally requires start-up costs to be paid back to the developer or landlord over 10 years plus a percentage of the profits.

The cost of care at a center is less than the cost of a nanny (generally, so also is the center's flexibility). Huckleberry Cheesecake (Washington, D.C.) charges \$795 per month for infants;¹⁰⁰ The Learning Center (also in Washington) appears to charge \$575 (a variety of schedules are available with different costs; certain employers co-pay the expense).¹⁰¹ For 11 months of care for 1 infant, the cost would be \$8,745 and \$6,325, respectively. By comparison, a nanny at \$5 per hour, 50 hours per week for 48 weeks would cost \$12,000. The comparison changes when more than 1 child is cared for -- the center charges will increase much more than the nanny's wage will.

⁹⁸ "Ballston Station Caters to Children of Working Parents," Washington Business Journal, November 12, 1990, Supplement, p. 2.

⁹⁹ "Diapers, Pin Stripes Mix as Day Care Moves Downtown," op. cit.

¹⁰⁰ Huckleberry Cheesecake brochure and rate card, Spring 1991.

¹⁰¹ The Learning Center packet of materials, Spring 1991.

C. Community Participation

Business leaders also can join with civic groups to tackle child care problems on the community level. In Charlotte, North Carolina, Duke Power Company was part of a group of major employers in the community called Corporate Champions. Their mandate was to identify needs, target projects and act as a catalyst to achieve results. After one year of effort, Charlotte had 2 additional child care centers and an anonymous gift of \$1 million for use on a third center.¹⁰² In Fairfax County, VA, the Child Care Council was formed at the request of the County Board of Supervisors. The Council members are chosen from local businesses and the community; their goals include encouraging employer awareness of child care issues and employer participation in available programs, and assisting those parties interested in establishing child care centers in Fairfax County in working through the extensive government requirements.¹⁰³

D. Government Participation:

Government at all levels is aware of the child care problems working parents face. At the federal level, the Act for Better Child Care Services, nicknamed the ABC bill, is currently pending before the Congress. It is controversial.¹⁰⁴ The debate seems to focus on the role of the federal government:

"The federal government must resist the temptation to be all things to all people, and politicians must resist the temptation to buy votes with another expensive program that it cannot afford. Across the country, the market is

¹⁰² WNCV Television, "Children: Everybody's Business," op. cit.

¹⁰³ WNCV Television, "The Child Care Crisis," op. cit.

¹⁰⁴ "Taking Care of Baby; In Search of Affordable Child Care," The Gazette, July 27, 1989, p. 15.

beginning to respond to day-care needs with informal neighborhood arrangements, volunteer programs and company-provided child care programs.

Some would debate whether the federal government, with its building deficit, should consider taking any new responsibility for our nation's child care needs. (Rep. Shaw: R.-Fla.)¹⁰⁵

The Omnibus Reconciliation Act of 1990, signed November 5, 1990, included authorization of a Child Care and Development Block Grant to the states of \$750 million in FY 1991, \$825 million FY 1992, \$925 million in each FY 1993 through 1995.

Various government agencies (federal, state and local) also act as role models by providing child care centers for their staffs' use (e.g., The Department of Labor, the Fairfax County government).

State and local agencies provide referral information and for group providers and centers. They fulfill the licensing and monitoring function for group providers and day care centers.

The federal government has offered some tax relief on child care expenses to ease the financial burden. There are two alternative options: (1) a tax credit (of 30 percent of child care expenses up to \$2,400 for one child, \$4,800 for two) or (2) through your employer, a dependent care account such as the Flexible Spending Account mentioned above (parents may contribute up to \$5,000 of salary per year to this account; child care expenses are drawn from the account during the year, the money is treated as pre-tax dollars). Tax savings, of course, depend on your earnings and your tax bracket, whether you file taxes as a single parent or married, and Social Security taxes.¹⁰⁶

¹⁰⁵ "Should feds help with Child Care? No: our children will eventually pay the tab," The Fairfax Journal, June 14, 1990, p. 2.

¹⁰⁶ "Easing the Child-Care Burden," The Washington Post, October 28, 1990, p. H-11.

CHAPTER V: CONCLUSIONS

Two key characteristics of the nanny market are the search for quality under uncertainty and at an affordable price. The structure and behavior of the nanny market, then, is best-explained in a search model context. The demand for nannies is very strong, but the demand tends to be localized in urban areas like New York City, Washington, D.C. and Los Angeles. The supply response is national (drawn by the recruiting efforts of placement agencies traveling throughout the United States and by the newspaper advertisements placed by individuals and agencies) and international (in large part, the illegal market). The product sought is the provision of high-quality child care -- a product which is not homogeneous. The search for quality under uncertainty¹⁰⁷ -- a process through which the parents locate, select and hire their choice of nannies and the nannies locate parents and pass the screening process to be hired -- drives the behavior of the market.

When beginning the search for a quality-care nanny, parents generally ask other parents, neighbors, colleagues for referrals. The referral or reference reveals the candidate's reputation. From the outset, a filter is placed on the demand side of the search -- interest is conditioned on personal knowledge of the candidates or references by individuals known to the parent. When personal knowledge is not available, parents

¹⁰⁷ As Akerlof suggests, "There are many markets in which buyers use some market statistic to judge the quality of prospective purchases. In this case there is incentive for sellers to market poor quality merchandise, since the returns for good quality accrue mainly to the entire group whose statistic is affected rather than to the individual seller. As a result there tends to be a reduction in the average quality of goods" (George A. Akerlof, "The Market for 'Lemons': Quality, Uncertainty and the Market Mechanism," Quarterly Journal of Economics, Vol. 84, 1970, reprint, p. 488.)

may seek a more thorough reference -- perhaps asking more detailed questions of the person providing the reference or, as one parent I interviewed did, insist on interviewing the nanny candidate's mother. Indeed, one service nanny placement agencies sell to potential customers is their reference checking capabilities.

The supply side response in providing this referral/reputation good depends on the perceptions of the importance of reputation. Clearly, nannies have every incentive to perform well, to establish and invest in their reputations. However, nannies who do not perform well may not be penalized for their low productivity, opportunism, or shirking behavior. When such a nanny applies for her next position, she may prefer to tell a prospective employer only of her positive experiences by listing names of or supplying letters from only her good references (parents are suspicious of dated references for this reason). If she has no degree of positive reputation, she may prefer to say she has no experience. In effect, by minimizing the negative reputation, a nanny can start out at zero and mask her prior poor performance.

When the searching parents realize this prospect, they quickly equate zero reputation with possibly negative reputation. They, then, would be reluctant to hire a nanny described as having no previous experience -- thus, reinforcing the importance of a positive reputation and referral good. For parents, reputation is the first indicator of the quality of care a candidate may provide. Positive reputation is the first characteristic the applicant must reveal to secure an interview and be considered further.

The second information set consists of the candidate's achievements or credentials which are verifiable -- education level, CPR training, etc. This, too, contributes to the parent's independent evaluation of the candidate's reputation.

The third information set bearing on the quality of care is the myriad signals transmitted during the screening and interviewing process. It is these signals which elicit the instinctive responses from parents regarding the candidate's basic ability to provide loving, quality care for the child. By evaluating the signals, the parents in many ways are reverifying the candidate's reputation. Some parents place greater weight on their personal evaluation of the candidate's signals than on the candidate's reputation, as suggested by the one parent I interviewed who hired a candidate who interviewed well but whose references were not very good.

The fourth element of information is price, which reinforces the other information sets (reputation, signals and achievements) but does not independently reveal quality.

The family ultimately is faced with assimilating all the available information mixed with some level of uncertainty and formulating estimates of the probability a candidate will succeed in the position given her reputation, signals, achievements and price. The individual with the highest conditional probabilities of success will surely be offered the position.

At the same time the parents are working through their search, the nanny is undertaking her own search -- evaluating reputation (generally this occurs most among celebrity families), signals, verifiable facts (e.g., will I have my own room?) and wages.

The parents and nannies -- the parties to this employment contract -- must participate directly in the transaction. Each transaction is highly individualized, incorporating social, psychological and economic considerations. As a result, the market is a complex one.

The innovations and institutions which have evolved in this market have focused on improving the search phase, generally by improving the availability of reliable information. For example:

- **nanny placement agencies:** these agencies can educate first-time players (parents or nannies) about the search they face and teach players to structure their searches; agencies generally employ personnel experienced in obtaining references, which reveals reputation; agencies offer a pool of candidates for parents to search through, thereby saving the parents the time and expense incurred in initially finding potential candidates.

- **state and county child care offices:** these organizations provide at no charge starting-point information to parents, such as lists of names of possible providers or other organizations to contact for referral information; the danger is in parents inferring positive reputation by this type of general referral.

- **employer-provided child care referral assistance:** this type of employee benefit service provides information collected by organizations believed to be capable of gathering accurate and comprehensive information; the purpose is to disseminate information without endorsing any particular type of care or any individual provider.

- **employer-sponsored centers/community-sponsored centers:** these seem to be well-received in the belief that the employer or the community have highly developed search skills/techniques and greater resources to apply to the problem of searching out quality care providers.

- **commercial child care centers:** which in essence fill the same role an agency fills without charging an initial fee (the fee is imbedded in the tuition cost) and without requiring the parent to devote time to the nanny search; however, the parent

still must search through centers in much the same way, since centers have differing philosophies of care, different features, etc.

- a trade association: which provides information to nannies, parents and agencies -- all possible parties to a transaction; it publicizes the value of the position, thereby developing its status and emphasizing the importance of positive reputation.

- industry trade press: which further informs and educates readers, improving the flow of information throughout the market.

These innovations may lower families' search costs and transactions costs either by increasing information flows and thereby reducing uncertainty and/or transforming uncertainty to a risk, which can be addressed in a contracting agreement.

The successful nanny-family employment relationship ultimately depends on the contract achieved and shaped by conflicting forces:

- Much time is required to search out the candidate of choice and finalize the employment agreement; search costs are significant measured in hours of time and value of time. Ironically, parents have little time available to search and transact because they are working.

- Strong demand elicits a strong supply response, but from both the legal and illegal markets. These individuals have varied qualifications and wage requirements. Quality is not necessarily positively related to wage requirements.

- This puts pressure on wages generally to remain at levels which will result in total child care expenditures more acceptable to the family budget. Given the number of hours involved, wages per hour remain low.

- Low wage levels do not encourage nannies to invest in training or certification, even at modest cost.

■ Once hired, the nanny faces incentives to perform well in order to build reputation as well as opportunities to shirk their job responsibilities.

■ Determining whether the nanny behaved opportunistically is important. If the nanny's performance were directly observable, the family could design an incentive contract to promote and reward good performance. However, the nanny's performance is only partially observable. The challenge becomes how to design a contract which establishes and encourages an agent-principal relationship between the nanny and family.¹⁰⁸ Generally, in anticipation of opportunistic behavior, a contract would be designed to include compensation incentives,¹⁰⁹ remedies and sanctions.

■ Because these young children cannot report on their care, parents develop both formal and informal ways to try to monitor performances (e.g., measuring supplies used, coming home unexpectedly), thereby incurring transactions costs.

■ Parents face high transactions costs if they incorporate bonding incentives into the contract (by paying premium wages to insure against having the nanny leave and beginning the search and transaction again) or if they rely entirely on their only feasible remedy or sanction of firing at will.

■ High transactions costs result from anticipating, designing and enforcing a motivating contract which generally remains an informal agreement. The nanny employment contracts often are incomplete -- a condition Klein suggests will offer

¹⁰⁸ A variety of incentive compensation contracts can be designed, including payment by output, piece rates, payment by input, payment by effort and worker sorting, payment by relative output. (Edward P. Lazear, "Incentive Contracts," Essay for the New Palgrave, March 1986.)

¹⁰⁹ Williamson, Wachter and Harris, op. cit., p. 144.

individuals the incentive to renege on the unspecified or unenforceable portion of the contract (the "holdup problem").¹¹⁰

■ If the contract fails, the parents begin the search and the contracting process again. To avoid even higher transaction costs, parents may be willing to devote more time to the search (i.e., by finding the absolutely best candidate, certain follow-on problems are likely to be avoided).

While repeat players in the market may reduce their search costs because they are more knowledgeable and experienced, they still must search and contract, and incur the associated costs. They must pursue and evaluate each information set and determine new conditional probabilities. These searches are not independent of previous searches -- that is, most searches and contracts are shaped by the deficiencies recognized in prior searches and contracts. Learning does affect the process and the outcome.

Perhaps the next major change to the market will be if and when the demand for nannies decreases -- when the birth rate among "baby boomers" falls. Given the supply response to the present strong demand, there then would be an oversupply of nannies chasing fewer positions. One response might be further product differentiation -- that is, to differentiate themselves and secure one of the few available positions, future nanny candidates may enhance their credentials by obtaining more training or some type of certificate. Another response might be survival of the higher skilled -- that is, the top-quality providers would be selected out in the search process

¹¹⁰ Benjamin Klein, "Transaction Cost Determinants of 'Unfair' Contractual Arrangements, American Economic Review, Papers and Proceedings, Vol. 70, 1980, reprint, pp. 139-140.

and the lower quality providers would be encouraged to move out of the market to other types of jobs. This "shake-out" may produce standards as a by-product. It certainly would reduce the pool of candidates to search through; with an easier search, parents may become more sensitive to price -- restoring price as a signal of quality.

Price also is of interest from a public policy perspective. Parents have been very vocal about the financial burden of child care costs. Several empirical studies recently have been undertaken to examine the effect of child care costs (not limited only to nannies) on the timing of mothers returning to work after the birth of their first child¹¹¹ and to examine patterns of child care demands as women age.¹¹² These studies consider the effects that child care subsidies may have on parents' (particularly working mothers) decisions to work -- an issue which is pertinent because of the legislation pending in Congress which would increase child care subsidies to working mothers. Earlier studies suggest that higher child care costs result in lower demand for child care and fewer working mothers in the workforce; subsidies, then, would lower families' child care costs, increase the demand for child care and result in an increased supply of working mothers in the labor force.

The Klerman and Liebowitz study concludes that women return to work soon after the birth of their first child because (1) tax treatments reduce the burden of child care expenses and (2) women face increased job opportunities (and husbands generally face less attractive job opportunities). The Blau and Robins study concludes the demand

¹¹¹ Klerman and Leibowitz, *op. cit.*

¹¹² David M. Blau and Philip K. Robins, "Child Care Demands and Labor Supply of Young Mothers Over Time," March 1990, prepared for presentation at the annual meeting of the Popular Association of America, Toronto, May 1990.

for child care increases and the supply of labor of working mothers increases as women age due to (1) child care costs, (2) mothers' wage rates and (3) "unobserved factors, i.e., a pure time trend."¹¹³

The effect of subsidies on demand for child care seems undisputed. But these studies also suggest that other factors in the labor market -- particularly job opportunities for both men and women in the workforce as well as wage rates -- affect the demand for child care. As a result, the literature reflects an ongoing interest in studying these issues and the relationship of labor supply and child care demand. From a public policy perspective, the tax treatment type of subsidy seems to provide the necessary financial relief to parents without distorting the market's behavior.

¹¹³ Ibid.

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APPENDIX A

CHILD CARE SURVEY

February 4, 1991

Number of Children

Ages

Current
Type of Child
Care

How did you locate your current arrangement?

- Through a friend/relative
- Newspaper
- County/city referral agency
- Other Ad (specify)
- Other (specify)

I take my children to a friend's home who has children of similar ages. I also have the oldest child in nursery school for a part of the days I work. The children go to the provider home 3 days/week, since I work part-time. My children have been with her

As you consider alternative arrangements, how important to you are: 3 1/2 years.
 1=very important 2=somewhat important 3=not very important 4=considered irrelevant to my decision

- 2 convenience
- 1 quality of care
- 2 cost
- 1 reliability
- 4 nationality of provider
- 4 whether provider was illegal alien

Comments

Do you expect to change providers in the next:

- 3 months?
- 6 months?
- 1 year?

Why

Not applicable. I considered quality of care and the likelihood of a long-term relationship between the provider and my children of primary importance. I would not have considered anyone who was likely to "quit" for any reason in the near future. I did not want my child to have to adjust to someone new ^{continual}.

Having been through at least one search for a child care provider, what would you do differently next time?

N.A.

If you used an agency: what was the range of the fee? What services were provided? What guarantees were given?

N.A.

If you found your own provider, about how much time do you believe you've spent in the search?

2-3 weeks. ~~is~~ My provider is a friend and former neighbor who provides care

Do you have a written contract with your provider? Why?

Yes. I think it's in both parties' interest to have as many variables as possible spelled out in advance. It is also easier on the child to know that Mom or Dad takes care of him when he is sick, etc., or who may pick ~~up~~ him up.

Do you believe your employer should become a party to your child care solution by:

providing information about sources of providers

providing a facility

by subsidizing your child care expenses somehow
your ideas as to "how":

by providing emergency care only (perhaps a center or an on-staff provider who rotates among employees' homes)

What is your ideal of the "perfect child care arrangement?"

Characteristics of a "perfect child care arrangement"

- long-term
- provider already has or immediately establishes a real relationship with your child (has your child's interests at heart, so this is more than just a "job").
- convenient location
- other children present so that your child has playmates, though not too many children to prevent your child from getting sufficient attention.

Comments:

My objection to nannies, au pairs, or other arrangements where the person comes in to your home is the high frequency of turnover and unreliability of such arrangements. While these arrangements may be more convenient for the parent, their high turnover rate is hard on the child, who must continually readjust to someone new. Paying such people high wages also seems to have no correlation on this rate of turnover. Too many people seem to equate quality care with these kinds of arrangements feeling that they've done best by their child because they provided a one-on-one relationship for child care. But what good is that relationship if it doesn't last? It's too hard on the child.

CHILD CARE SURVEY

February 4, 1991

Number of Children

2

Age

4 years, 10 months

Current Type of Child Care

4 yr old in full time preschool

How did you locate your current arrangement?

Through a friend/relative

Newspaper

County/city referral agency

Other Ad (specify)

Other (specify)

baby in home care at friend's house - 1 on 1 situation.

As you consider alternative arrangements, how important to you are:

1=very important 2=somewhat important 3=not very important 4=considered irrelevant to my decision

2 convenience

1 quality of care

2 cost

1 reliability

3 nationality of provider

1 whether provider was illegal alien

Comments

Do you expect to change providers in the next:

3 months?

6 months?

1 year?

Why

Infant son will be accepted at child development center where my daughter already goes. (Priority given to siblings; waiting list for entry is about 3 years!)

Having been through at least one search for a child care provider, what would you do differently next time?

If you used an agency: what was the range of the fee? What services were provided? What guarantees were given?

If you found your own provider, about how much time do you believe you've spent in the search?

Persuaded stay-at-home friends to watch my children on weekends

Do you have a written contract with your provider? Why?

With my first child everything was verbal - but details were pretty specific -
i.e. holiday pay; holidays; hours; money for
to be used specifically for my child's
attitudes toward discipline, schedules
Second child - being watched by friend
as an interim measure. Much more casual
arrangement.

curious wording

Do you believe your employer should become a party to your child care solution by:

providing information about sources of providers

providing a facility

by subsidizing your child care expenses somehow
your ideas as to "how":

by providing emergency care only (perhaps a center or an on-staff provider who rotates among employees' homes)

What is your ideal of the "perfect child care arrangement?"

Ages 0-2 child in a "home situation" w/ care pretty much in home. After 2 yrs- child needs social interaction with other children - initially on a part time basis; then full time -
Comments: *as in a pre-school*

CHILD CARE SURVEY

February 4, 1991

Number of Children
3

Ages
6 + 3 + 3

Current Type of Child Care
Home Day Care

How did you locate your current arrangement?

- Through a friend/relative
- Newspaper
- County/city referral agency
- Other Ad (specify)
- Other (specify)

As you consider alternative arrangements, how important to you are:
1=very important 2=somewhat important 3=not very important 4=considered irrelevant to my decision

1 convenience

1 quality of care

2 cost

1 reliability

2 nationality of provider

2 whether provider was illegal alien

Comments

→ I.e. - if I had more information on this I would use it as easily.

Do you expect to change providers in the next: No

3 months? _____

6 months? _____

1 year? _____

Why

Having been through at least one search for a child care provider, what would you do differently next time?

I'd ask ~~for~~ more clarification on certain areas (i.e. costs or expected cost increase, if any) ~~explicit~~ more up front my own needs.

If you used an agency: what was the range of the fee? What services were provided? What guarantees were given?

If you found your own provider, about how much time do you believe you've spent in the search?

Days, no more than 1-2 weeks. Such needs demand immediate decisions, even if short term arrangements don't satisfy all your needs.

Do you have a written contract with your provider? ^{No} Why? ~~Yes~~ I never asked. I felt that, since she is not licensed, a contract might not be agreeable with her. I might lose the opportunity for a provider with a good reputation who at the same time shied away from "formal" or "legal" ties.

Do you believe your employer should become a party to your child care solution by:

___ providing information about sources of providers

___ providing a facility

___ by subsidizing your child care expenses somehow
your ideas as to "how":

___ by providing emergency care only (perhaps a center or an on-staff provider who rotates among employees' homes)

✓ by providing paternal and maternal leave
and leave exceptions that meet child care
needs

What is your ideal of the "perfect child care arrangement?"

- The perfect one is to be able to have children
somewhere near home or work, is not at home
so a day care facility at the job site is
ideal.

- Being able to work at home & have your
children supervised by someone there.

Comments:

CHILD CARE SURVEY

February 4, 1991

Number of Children

Two

Age

2 and 3

Current
Type of Child
Care

Montessori School
Baby sitter

How did you locate your current arrangement?

Through a friend/relative

Newspaper

County/city referral agency

Other Ad (specify)

Other (specify)

As you consider alternative arrangements, how important to you are:

1=very important 2=somewhat important 3=not very important 4=considered irrelevant to my decision

2 convenience

1 quality of care

1 cost

1 reliability

4 nationality of provider

1 whether provider was illegal alien

Comments

Do you expect to change providers in the next:

3 months?

6 months?

1 year?

Why

2 year old will be going to school

Having been through at least one search for a child care provider, what would you do differently next time?

Nothing.

If you used an agency: what was the range of the fee? What services were provided? What guarantees were given?

Did not use agency

If you found your own provider, about how much time do you believe you've spent in the search?

2 days

Do you have a written contract with your provider? Why?

A contract with the private school but not with the babysitter. I had to sign a contract to insure that I would pay the fees.

Do you believe your employer should become a party to your child care solution by:

providing information about sources of providers

providing a facility

by subsidizing your child care expenses somehow
your ideas as to "how":

by providing emergency care only (perhaps a center or an on-staff provider who rotates among employees' homes)

What is your ideal of the "perfect child care arrangement?"

I would like a school that provides a solid education and can keep abreast of the current situations in today's society to better understand all children with different race or ethnic backgrounds

Comments:

CHILD CARE SURVEY

February 4, 1991

Number of Children

1

Age

3

Current
Type of Child
Care

Nursery

How did you locate your current arrangement?

- Through a friend/relative
- Newspaper
- County/city referral agency
- Other Ad (specify)
- Other (specify)

As you consider alternative arrangements, how important to you are:

1=very important 2=somewhat important 3=not very important 4=considered irrelevant to my decision

- 1 convenience
- 1 quality of care
- 1 cost
- 1 reliability
- 3 nationality of provider
- 3 whether provider was illegal alien

Comments

Do you expect to change providers in the next:

- 3 months? 1/0
- 6 months? 1/0
- 1 year? 1/0

Why

Having been through at least one search for a child care provider, what would you do differently next time?

Find out what all the ~~the~~ provider provides, what am I really paying for, make sure the provider is close to home.

If you used an agency: what was the range of the fee? What services were provided? What guarantees were given?

If you found your own provider, about how much time do you believe you've spent in the search?

Approximately 1 year.

Do you have a written contract with your provider? Why?

No.

Do you believe your employer should become a party to your child care solution by:

providing information about sources of providers

providing a facility

by subsidizing your child care expenses somehow
your ideas as to "how":

by providing emergency care only (perhaps a center or an on-staff provider who rotates among employees' homes)

What is your ideal of the "perfect child care arrangement?"

The perfect child care arrangement to me would be a facility that's not over-caring you and doing everything very little service. A center that would be open at least until 6:30 pm because that's usually the drop-off time for most mothers. Provider that would offer late hours care (9 pm - 1:00 am) Provider that feeds the kids breakfast, lunch has snack. One most important to provider that would offer plenty of education.

Comments:

CHILD CARE SURVEY

February 4, 1991

<u>Number of Children</u>	<u>Age</u>	<u>Current Type of Child Care</u>
1	3	private home

How did you locate your current arrangement?

- Through a friend/relative
- Newspaper
- County/city referral agency
- Other Ad (specify)
- Other (specify)

As you consider alternative arrangements, how important to you are:
1=very important 2=somewhat important 3=not very important 4=considered irrelevant to my decision

	<u>Comments</u>
<u>1</u> convenience	
<u>1</u> quality of care	
<u>2</u> cost	
<u>1</u> reliability	
<u>2</u> nationality of provider	
<u>1</u> whether provider was illegal alien	

Do you expect to change providers in the next:

3 months? No
 6 months? No
 1 year? yes

Why

My child will be 4
 + I would like to put
 her in school.

Having been through at least one search for a child care provider, what would you do differently next time?

Nothing

If you used an agency: what was the range of the fee? What services were provided? What guarantees were given?

N/A

If you found your own provider, about how much time do you believe you've spent in the search?

2 weeks

Do you have a written contract with your provider? Why?

No, it's not necessary!

Do you believe your employer should become a party to your child care solution by:

providing information about sources of providers

providing a facility

by subsidizing your child care expenses somehow
your ideas as to "how": It should be based on your income

by providing emergency care only (perhaps a center or an on-staff provider who rotates among employees' homes)

What is your ideal of the "perfect child care arrangement?"

A sitter that is there from 7^{am}-5:00^{p.m}
Monday - Friday. I have only had to get
a backup for my baby sitter once in 3 years
(I have been very lucky). This was only because she
had death in her family. (Husband)

Comments:

CHILD CARE SURVEY

February 4, 1991

<u>Number of Children</u>	<u>Age</u>	<u>Current Type of Child Care</u>
1	14 months	in-home shared care

How did you locate your current arrangement?

- Through a friend/relative
- Newspaper
- County/city referral agency
- Other Ad (specify)
- Other (specify)

As you consider alternative arrangements, how important to you are:

1=very important 2=somewhat important 3=not very important 4=considered irrelevant to my decision

- 2 convenience
- 1 quality of care
- 3 cost
- 1 reliability
- 4 nationality of provider
- 4 whether provider was illegal alien

Comments

Do you expect to change providers in the next:

- 3 months? yes
- 6 months? _____
- 1 year? _____

Why
another child on the way.

Having been through at least one search for a child care provider, what would you do differently next time?

More extensive - although
we were very lucky

If you used an agency: what was the range of the fee? What services were provided? What guarantees were given?

If you found your own provider, about how much time do you believe you've spent in the search?

total - 20 hours

Do you have a written contract with your provider? Why?

No, the people we shared with
did not

Do you believe your employer should become a party to your child care solution by:

providing information about sources of providers

providing a facility

by subsidizing your child care expenses somehow —
your ideas as to "how":

*w/ more
flexibility in
time*

by providing emergency care only (perhaps a center or an on-staff provider who rotates among employees' homes)

What is your ideal of the "perfect child care arrangement?"

*In home, one on one
care until age 2
at least. After that
I think half day
nursery school*

Comments:

CHILD CARE SURVEY

February 4, 1991

<u>Number of Children</u>	<u>Ages</u>	<u>Current Type of Child Care</u>
2	15 months, 4 yrs.	in-home care, but live out, 3 days/wk

How did you locate your current arrangement?

- Through a friend/relative
- Newspaper
- County/city referral agency
- Other Ad (specify)
- Other (specify)

As you consider alternative arrangements, how important to you are:
1=very important 2=somewhat important 3=not very important 4=considered irrelevant to my decision

	<u>Comments</u>
<u>1</u> convenience for my school children - I want their daily lives and routines disrupted as little as possible, I want them to be together as siblings, have their toys and books, and continue at their 1/2 day nursery school.	
<u>1</u> quality of care	
<u>3</u> cost	
<u>1</u> reliability	
<u>2</u> nationality of provider as it relates to ability to speak English, personal hygiene, similarity of values to our own, potential for diseases	
<u>2</u> whether provider was illegal alien can have an effect on the permanence of the relationship	

Do you expect to change providers in the next:

- 3 months? hope not!
- 6 months? hope not!
- 1 year? hope not!

Why

I chose my current day care provider with the intention that it would be a 2 yrs (or more) arrangement.

Having been through at least one search for a child care provider, what would you do differently next time?

I would get an answering machine to field the deluge of initial calls, but I would still conduct the search myself. I think the agencies charge too much for the services provided. Also, I would want to check references for myself anyway. If after 4-5 wks. of looking I could not find the right person I might consider an agency.

If you used an agency: what was the range of the fee? What services were provided? What guarantees were given?

I've never used an agency.

If you found your own provider, about how much time do you believe you've spent in the search?

(1987) 1st search - \$40.00 for newspaper ad; 5 hrs background reading and sign making, etc.; 8 hrs interviewing and checking references and fielding calls

(1990-91) 2nd search - \$90.00 for newspaper ads; 25 hours interviewing, checking references, describing the job to callers + 4 hours finding second family for my provider

Do you have a written contract with your provider? Why?

no, I have written instructions, maps, and suggested daily schedules and we discuss daily routines, duties, pay arrangements (sick days, holidays, etc.). But I don't think a contract provides any additional assurances. It might hurt the "partnership" arrangement that I try to create between us for the 2 days I don't use her.

Do you believe your employer should become a party to your child care solution by:

no providing information about sources of providers

no providing a facility

no by subsidizing your child care expenses somehow
your ideas as to "how":

no by providing emergency care only (perhaps a center or an on-staff provider who rotates among employees' homes)

The best thing an employer can do is provide flexibility and understanding about the need to take time off (with or without pay) for illnesses, field trips, birthdays, etc.

What is your ideal of the "perfect child care arrangement?"

see the answer to "convenience" on page 1, also →

Extended (6, 9, 12 month) maternity leaves (mostly without pay, ^{if afraid} ~~if~~ should (and encouraged?) be offered whenever possible. And part-time work can mean the difference between enjoying your children's childhoods at their pace or making them fit into your adult schedule.

Comments:

CHILD CARE SURVEY

February 4, 1991

Number of Children

Age

Current
Type of Child
Care

How did you locate your current arrangement?

- Through a friend/relative
- 7 Newspaper
- County/city referral agency
- Other Ad (specify)
- Other (specify)

As you consider alternative arrangements, how important to you are:
1=very important 2=somewhat important 3=not very important 4=considered irrelevant to my decision

- 1 convenience
- 1 quality of care
- 2 cost
- 1 reliability
- 4 nationality of provider
- 2 whether provider was illegal alien

Comments

Do you expect to change providers in the next:

- 3 months? ✓
- 6 months?
- 1 year?

Why

*Needs of the family are
changing - need live in
help*

Having been through at least one search for a child care provider, what would you do differently next time?

Use an agency

If you used an agency: what was the range of the fee? What services were provided? What guarantees were given?

Will use one - Fee \$1200. They will thoroughly do a background check + interviews of person + reference. They provide services for the nursery - nanny makes commitment for 1 yr. There is a 60 day money back guarantee if not satisfied.

If you found your own provider, about how much time do you believe you've spent in the search?

2 weeks

Do you have a written contract with your provider? Why?

No. Didn't think it was necessary but will in the future

Do you believe your employer should become a party to your child care solution by:

N/A.

___ providing information about sources of providers

___ providing a facility

___ by subsidizing your child care expenses somehow
your ideas as to "how":

___ by providing emergency care only (perhaps a center or an on-staff provider who
rotates among employees' homes)

What is your ideal of the "perfect child care arrangement?"

A person who is imaginative and plays well
with the children, is responsible and also helps
with the housework

Comments:

CHILD CARE SURVEY

February 4, 1991

Number of Children

1

Age

2 1/4

Current Type of Child Care

How did you locate your current arrangement?

Through a friend/relative *tried*

Newspaper

County/city referral agency *tried*

Other Ad (specify)

Other (specify)

Day care non-live in nanny in another family's home with another child. Nanny's wife, the family's children were not in school. Family called, not home day care.

As you consider alternative arrangements, how important to you are:

1=very important 2=somewhat important 3=not very important 4=considered irrelevant to my decision

2 convenience

1 quality of care

2 cost

1 reliability

4 nationality of provider

3 whether provider was illegal alien

Comments

low in parents, especially cost

Do you expect to change providers in the next:

Why

3 months? no

6 months? maybe *perhaps because second child born in July*

1 year? no

Having been through at least one search for a child care provider, what would you do differently next time?

It's hard to say, we tried all the avenues mentioned in the first question. He didn't think there is any one approach that works best. He'd like longer hours.

If you used an agency: what was the range of the fee? What services were provided? What guarantees were given?

not applicable

If you found your own provider, about how much time do you believe you've spent in the search?

My wife did the search. After ~~two~~^{one} false starts, she made a good attempt with a person for 6 months, then she that didn't work out, and now she's current caregiver. Finally the current caregiver & she has that didn't work out either in about 6 weeks.

Do you have a written contract with your provider? Why?

No. We don't feel a contract would have provided us with a sense of protection in addition to knowing the people who are going to be our child's care provider.

Do you believe your employer should become a party to your child care solution by:

providing information about sources of providers

providing a facility

by subsidizing your child care expenses somehow
your ideas as to "how":

by providing emergency care only (perhaps a center or an on-staff provider who rotates among employees' homes)

What is your ideal of the "perfect child care arrangement?"

competent person who lives in our house for in-house care. Older, loves children, knows CPR.

Comments:

My wife conducted most of the search, although we consulted each other closely and both participated in some interviews.

CHILD CARE SURVEY

February 4, 1991

<u>Number of Children</u>	<u>Ages</u>	<u>Current Type of Child Care</u>
2	2, 5	part time

How did you locate your current arrangement?

- Through a friend/relative
- Newspaper
- County/city referral agency
- Other Ad (specify)
- Other (specify)

As you consider alternative arrangements, how important to you are:

1=very important 2=somewhat important 3=not very important 4=considered irrelevant to my decision

- 2 convenience
- 1 quality of care
- 2 cost
- 1 reliability
- 2 nationality of provider
- 3 whether provider was illegal alien

Comments

you should include acceptance by children of the surroundings and the disposition of the provider. These were important to u.s. whether the provider was licensed (by us govt) was also important.

Do you expect to change providers in the next:

- 3 months? _____
- 6 months? _____
- 1 year? _____

NO

Why

Having been through at least one search for a child care provider, what would you do differently next time?

Ensure that availability of provider was long term.

If you used an agency: what was the range of the fee? What services were provided? What guarantees were given?

n/a

If you found your own provider, about how much time do you believe you've spent in the search?

12 hours discover a one-two week period.

Do you have a written contract with your provider? Why?

no

Do you believe your employer should become a party to your child care solution by:

providing information about sources of providers

providing a facility

by subsidizing your child care expenses somehow
your ideas as to "how":

by providing emergency care only (perhaps a center or an on-staff provider who rotates among employees' homes)

What is your ideal of the "perfect child care arrangement?"

*Having an acceptable provider located
within walking distance of our home.*

Comments:

CHILD CARE SURVEY

February 4, 1991

Number of Children 1 Age 16 months Current Type of Child Care
Center care

How did you locate your current arrangement?

- Through a friend/relative
- Newspaper
- County/city referral agency
- Other Ad (specify)
- Other (specify)

As you consider alternative arrangements, how important to you are:

1=very important 2=somewhat important 3=not very important 4=considered irrelevant to my decision

- 1 convenience
- 1 quality of care
- 3 cost
- 1 reliability
- 3 nationality of provider
- 3 whether provider was illegal alien

Comments

Do you expect to change providers in the next:

- 3 months? no
- 6 months? no
- 1 year? no

Why

Having been through at least one search for a child care provider, what would you do differently next time?

If you used an agency: what was the range of the fee? What services were provided? What guarantees were given?

N/A

If you found your own provider, about how much time do you believe you've spent in the search?

I had telephone interviews with about half a dozen home care providers or visited one of them. I called 15-20 day care centers for information, and toured 4 of them.

Do you have a written contract with your provider? Why?

I have an agreement with the center, primarily about the timing of payment.

Do you believe your employer should become a party to your child care solution by:

yes providing information about sources of providers

qualified yes providing a facility, depending on the ^{and nature} size of the employer

qualified yes by subsidizing your child care expenses somehow
your ideas as to "how": "

qualified yes by providing emergency care only (perhaps a center or an on-staff provider who rotates among employees' homes)

"

What is your ideal of the "perfect child care arrangement?"

I am happy with my current arrangement -
I bring my son to a day-care facility,
adjacent to the building where I work.

The day-care center uses an approach
in child care that I like, encouraging and
teaching social skills, independence, learning
Comments: activities, and fun.

I believe the government should play a
larger role in developing our human resources
- creating parental leave policies similar
to those in most Western European
countries.

- more stringent day-care quality standards and enforcement.
- subsidized day-care

CHILD CARE SURVEY

February 4, 1991

<u>Number of Children</u>	<u>Ages</u>	<u>Current Type of Child Care</u>
2	4, 1 1/2	In-home provider

How did you locate your current arrangement?

- Through a friend/relative
- Newspaper
- County/city referral agency
- Other Ad (specify) Local condominium bulletin - a real fluke!
- Other (specify)

As you consider alternative arrangements, how important to you are:

1=very important 2=somewhat important 3=not very important 4=considered irrelevant to my decision

	<u>Comments</u>
<u>1</u> convenience	
<u>1</u> quality of care	
<u>2</u> cost	
<u>1</u> reliability	
<u>4</u> nationality of provider	
<u>3</u> whether provider was illegal alien	

Do you expect to change providers in the next:

	<u>Why</u>
3 months? <input type="checkbox"/>	
6 months? <input type="checkbox"/> No	
1 year? <input type="checkbox"/>	

Having been through at least one search for a child care provider, what would you do differently next time?

If you used an agency: what was the range of the fee? What services were provided? What guarantees were given?

If you found your own provider, about how much time do you believe you've spent in the search?

Do you have a written contract with your provider? Why?

Do you believe your employer should become a party to your child care solution by:

providing information about sources of providers

providing a facility *USDA is doing this but it's for low-income people*

by subsidizing your child care expenses somehow
your ideas as to "how":

*This is a role for government - child care workers' wages need to be higher
As better quality people are attracted but there is a limit as to what*
 by providing emergency care only (perhaps a center or an on-staff provider who
rotates among employees' homes)

families can afford to pay

What is your ideal of the "perfect child care arrangement?"

*It doesn't exist. Our in-home situation has worked well and
we prefer it for both our convenience and for the stability
it provides the kids. However, it would be nice to have a
back-up arrangement.*

Comments:

my employer is the federal government/USDA

CHILD CARE SURVEY

February 4, 1991

Number of Children

4

Age

23, 20, 19, (3)

Current
Type of Child
Care

NURSERY SCHOOL

How did you locate your current arrangement?

Through a friend/relative

Newspaper

County/city referral agency

Other Ad (specify)

Other (specify) LISTING PUT OUT BY THE NATIONAL ASSOC. FOR THE EDUCATION OF YOUNG CHILDREN

As you consider alternative arrangements, how important to you are:

1=very important 2=somewhat important 3=not very important 4=considered irrelevant to my decision

2 convenience

1 quality of care

2 cost

1 reliability

4 nationality of provider

4 whether provider was illegal alien

Comments

Do you expect to change providers in the next:

3 months? _____

6 months? _____

1 year? _____

no

Why

Having been through at least one search for a child care provider, what would you do differently next time?

NOTHING

If you used an agency: what was the range of the fee? What services were provided? What guarantees were given?

NO

If you found your own provider, about how much time do you believe you've spent in the search?

1ST BABYSITTER - 1 WK.

2ND " - 1 MO.

3RD " - 1 MO.

NURSERY SCHOOL - 3 MOS.

Do you have a written contract with your provider? Why?

WE SHARED WITH THE SAME FAMILY OUR 2ND & 3RD BABYSITTER & DECIDED WITH THIS FAMILY TO WRITE EVERYTHING OUT, INCLUDING SALARY, PAID LEAVE, & PAID VACATION TIMES, SO THAT MISUNDERSTANDINGS WOULD BE MINIMIZED AMONG ALL PARTIES.

THE NURSERY SCHOOL REQUIRED A CONTRACT.

Do you believe your employer should become a party to your child care solution by:

NO providing information about sources of providers

NO providing a facility

YES by subsidizing your child care expenses somehow

your ideas as to "how":

*Take childcare money out of your salary
before taxes, ^{are computed} & put in separate childcare acct.*

NO by providing emergency care only (perhaps a center or an on-staff provider who rotates among employees' homes)

What is your ideal of the "perfect child care arrangement?"

If money weren't a problem, I'd like a housekeeper who loved my child, followed my instructions but was bright & energetic enough to think of some things on her own, & got dinner started before I got home.

For a child ~~as~~ my daughter's age (3) the nursery school she's been going to since Aug. is close to perfect. Now
Comments: *if it were just less than a mile away from home..*

CHILD CARE SURVEY

February 4, 1991

<u>Number of Children</u>	<u>Ages</u>	<u>Current Type of Child Care</u>
1	3 1/2	Combination of grandparen picking her up after nursery school 2 mornings a week and have hired a person for third full day. (only work 3 days/week)

How did you locate your current arrangement?

Through a friend/relative

Newspaper

County/city referral agency

Other Ad (specify)

Other (specify) Knew the person we hired from our daughter's nursery school. She had worked there 11 years.

As you consider alternative arrangements, how important to you are:
 1=very important 2=somewhat important 3=not very important 4=considered irrelevant to my decision

<u>2</u> convenience <u>1</u> quality of care <u>2</u> cost <u>2</u> reliability <u>4</u> nationality of provider - <u>4</u> whether provider was illegal alien	<u>Comments</u> Increased I have consistently paid top rates to assure the best care and attract people I knew.
	previous child care provider was hispanic with heavy accent, though fluent in English

Do you expect to change providers in the next:

3 months? _____ 6 months? _____ 1 year? _____	<u>Why</u> will not be needing child care after June for a year (will be on maternity leave).
---	--

Having been through at least one search for a child care provider, what would you do differently next time?

If you used an agency: what was the range of the fee? What services were provided? What guarantees were given?

Looked at one agency but thought I got little for the money. They collected applications and gave them to me. They did little screening and no security check.

If you found your own provider, about how much time do you believe you've spent in the search?

It's difficult to quantify, particular since our situation has changed several times over the last 3 years. Most of my time has probably been spent looking at schools/day care centers, rather than interviewing. I felt I could screen schools/centers better than an individual.

Do you have a written contract with your provider? Why?

no. Always used people I knew and felt the formality of a contract was not appropriate.

Do you believe your employer should become a party to your child care solution by:

providing information about sources of providers

providing a facility

by subsidizing your child care expenses somehow
your ideas as to "how":

by providing emergency care only (perhaps a center or an on-staff provider who rotates among employees' homes)

What is your ideal of the "perfect child care arrangement?"

Comments:

CHILD CARE SURVEY

February 4, 1991

Number of Children /

Age 3 years 8 months

Current Type of Child Care

After school - Extended Day Care

How did you locate your current arrangement?

- Through a friend/relative
- Newspaper
- County/city referral agency
- Other Ad (specify)
- Other (specify) *through school.*

As you consider alternative arrangements, how important to you are:

1=very important 2=somewhat important 3=not very important 4=considered irrelevant to my decision

- 1 convenience
- 1 quality of care
- 1 cost
- 1 reliability
- 4 nationality of provider
- 4 whether provider was illegal alien

Comments

in fact, I prefer the cultural enrichment. My daughter has benefited from being with a Spanish sitter.

Do you expect to change providers in the next:

- 3 months? ND
- 6 months? ND
- 1 year? ND

Why

primarily convenience reliability consistency & most importantly because it is a good environment for my daughter.

Having been through at least one search for a child care provider, what would you do differently next time?

As my daughter gets older, the search becomes increasingly easier. When she was a baby, it was much harder. As a single mother, cost is very important. I was always willing however to give up convenience for quality. There were times that I drove 40 minutes out of my way to get to someone I trusted I could afford!

If you used an agency: what was the range of the fee? What services were provided? What guarantees were given?

I never had to use an agency.

If you found your own provider, about how much time do you believe you've spent in the search?

I was fortunate and found someone easily through word of mouth. Unfortunately my daughter was there long periods of time because of the distance the sitter was from my home's job.

Do you have a written contract with your provider? Why?

No, the care is provided by the school. I have a "contract" to pay them monthly and they have "official" records of her health certif. and family history etc...

Do you believe your employer should become a party to your child care solution by:

providing information about sources of providers

providing a facility

by subsidizing your child care expenses somehow

your ideas as to "how": I am a salaried employee. As a manager there are times when due to demand I have to stay late. My childcare charges \$1.00 per minute late... I think the employer should compensate for such "concessions".

by providing emergency care only (perhaps a center or an on-staff provider who rotates among employees' homes)

What is your ideal of the "perfect child care arrangement?"

Some governmental agencies and large companies have childcare facilities and are subsidized by using a sliding scale fee from their employees. I think providing childcare facilities ~~would~~ ^{would} your round would encourage people to show up on time to work every day and knowing their children were nearby hopefully the employees would be more productive. Employees wouldn't be stressed out! It would take them less time and hassle to get to a work and they wouldn't spend the hour before leaving work worrying about traffic on the way home, how late they were going to be and how much it would cost.

The children, closer to their parents wouldn't be stressed. They would be with other children in the same situation, aware of where their parents were and able to see them more.

Although I like the idea of in home care, it is very costly and not extremely reliable. Also, depending on the sitter, it can also be a non stimulating environment for your child. In a ~~school~~ ^{school} employee run facility, there are structured activities, naps, meals etc. I wish there were some way to incorporate the affection & attention of one to one care, but you can't have everything!

CHILD CARE SURVEY

February 4, 1991

<u>Number of Children</u>	<u>Ages</u>	<u>Current Type of Child Care</u>
2	4, 9	Child Care Center

How did you locate your current arrangement?

Through a friend/relative

Newspaper

County/city referral agency

Other Ad (specify)

Other (specify)

located at entrance to my community.

As you consider alternative arrangements, how important to you are:

1=very important 2=somewhat important 3=not very important 4=considered irrelevant to my decision

2 convenience

1 quality of care

3 cost

1 reliability

4 nationality of provider

1 whether provider was illegal alien

Comments

Do you expect to change providers in the next:

3 months?

6 months?

1 year?

Why

older child may feel she is too old for child care center.

Having been through at least one search for a child care provider, what would you do differently next time?

If you used an agency: what was the range of the fee? What services were provided? What guarantees were given?

If you found your own provider, about how much time do you believe you've spent in the search?

Do you have a written contract with your provider? Why?

Do you believe your employer should become a party to your child care solution by:

providing information about sources of providers

providing a facility

by subsidizing your child care expenses somehow
your ideas as to "how":

by providing emergency care only (perhaps a center or an on-staff provider who rotates among employees' homes)

What is your ideal of the "perfect child care arrangement?"

Child is happy and stimulated.
Caregiver(s) is (are) dependable.

Comments:

Main problem is when child is mildly ill - can't go to child care center, but wouldn't need me there if I could find someone to come to the house (on short notice).

DEBORAH LEWIS DEMPSEY

Ms. Dempsey was born on August 24, 1950 in Ft. Campbell, KY. She graduated from Langley High School (McLean, VA) in 1968. She received her B.A. degree in Economics from the College of William and Mary (Williamsburg, VA) in 1972.

Since 1973, Ms. Dempsey has been employed by National Economic Research Associates, Inc. (NERA), a firm of consulting economists. In 1982 she was elected an Assistant Vice President, thus becoming an officer of the firm.

At NERA, Ms. Dempsey has supervised economic studies of a variety of industries in connection with antitrust proceedings, particularly studies involving massive data collection and computerization. These studies include analyses of pricing and price behavior, market share statistics, geographic patterns of distribution and other aspects of market behavior relating to the nature of competition.

Ms. Dempsey is a member of the American Management Associations and the Committee on the Status of Women in the Economics Profession (of the American Economic Association).

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