

# Briefing Paper

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## Child Care Subsidies Promote Mothers' Employment and Children's Development

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*"If you're telling people that they can't have child care, then they probably won't be able to work. For every two steps you take forward, you're being dragged backward."*

Cassandra Lee, a working mother<sup>1</sup>

In the current debate over welfare reauthorization, the importance of child care assistance for low-income and working families cannot be overstated. This briefing paper explores the current status of government child care assistance, reviews research on the connections between child care assistance, mothers' labor force participation, and children's development, and offers policy recommendations for improving the quality and quantity of child care assistance.

Large numbers of eligible children are not being served by current child care assistance programs due to ongoing funding shortages. Child care assistance is important for the economic well being of low-income and single-parent families, and therefore this type of assistance should be increased in difficult economic times. Quality child care is critical for helping mothers attain and maintain employment and for promoting healthy childhood development. Welfare reauthorization proposals put forth by the House and the Senate Finance Committee threaten to worsen the current shortage of child care by failing to provide adequate funding for these important programs. This paper recommends that the provision of child care assistance to low-income and working families be made a policy priority and that significant resources be committed to improving access to quality child care for all needy families.

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Finding quality and dependable child care is a constant concern for working parents across the country. Low-income working families, in particular, find affordable, reliable, high-quality child care extremely difficult to acquire; and for many low-income working women, that difficulty becomes a near impossibility (Schulman 2000). Although the passage of the 1996 Personal Responsibility and Work

Opportunity Reconciliation Act (PRWORA) has been successful in helping many impoverished women move from welfare to work, it has failed to substantially and securely lift these women out of poverty (Jones De-Weever, Peterson, and Song 2003). In addition, the difficulties low-income women face in accessing child care are further compounded by the fact that working mothers, especially those coming

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<sup>1</sup> Quoted by Woodlee (2002).

off welfare, are concentrated in low-wage, low-skilled jobs with little scheduling flexibility (Heymann and Earle 1999, McCrate 2002). Adequate and consistent child care funding is critical for helping low-income working families and welfare leavers move out of poverty and toward self-sufficiency (Institute for Women’s Policy Research 1997, Meyers et al. 2002).

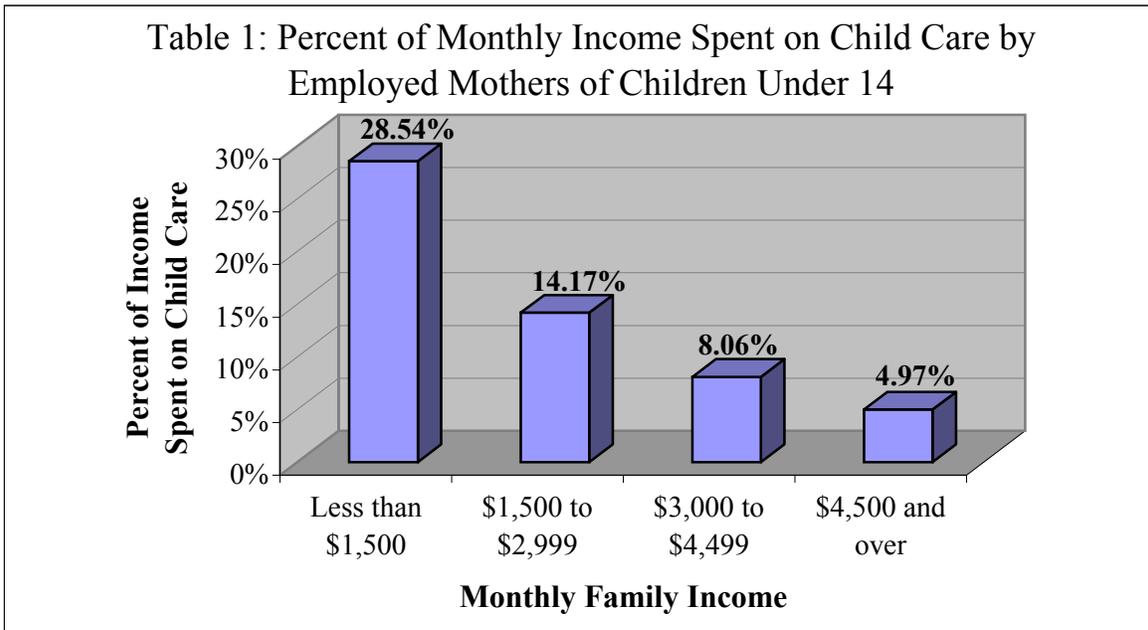
This briefing paper examines the cost of child care for working families and the current status of child care assistance programs. We highlight the link between women’s access to quality child care and their ability to garner and sustain employment and we explore the effect of child care quality on child development and children’s overall well-being. We then offer specific policy recommendations to improve access to quality, affordable child care services.

**The High Cost of Child Care**

Child care is a significant expense for many families, but the cost of financing child care is particularly burdensome for low-income families. Giannarelli, Adelman, and Schmidt

(2003) find that 42 percent of low-income families with children pay for child care, with an average monthly child care expense in 1999 of \$232, compared to \$303 for all families. While low-income working families spend less on average than higher-income families, Table 1 illustrates that the percentage of income used to pay for child care is proportionally larger for low-income families than for high-income families. In fact, low-income families spend over one-fourth of their income on child care services while higher-income families spend five percent of their income on child care (U.S. Department of Health and Human Services 1999, Institute for Women’s Policy Research 1996).

A national study of child care costs finds that child care costs for infants are higher than the cost of public college tuition in every state. In many states, the child care costs are more than double the cost of college tuition: in Rockland County, New York, in 2000, for example, the average annual cost of child care for a 4-year-old in a center was \$8,060 while the average annual cost of public college tuition there was \$3,905 (Schulman 2000).



Source: U.S. Census Bureau, PPL Table 6 (From the Survey of Income and Program Participation, 1999 Panel, Wave 10). Compiled by the U.S. Department of Health and Human Services, Administration for Children and Families (2003).

## **Many Eligible Children are Left Without Child Care Assistance**

Giannarelli, Adelman, and Schmidt (2003) estimate from the 1999 National Survey of America's Families that over 12 percent of all employed families with children under age 13 receive child care assistance, and that low-income families are the most likely to receive help. The need for child care assistance has been amplified by the 1996 welfare reform legislation's emphasis on increasing work participation for welfare recipients. The reforms have significantly increased the labor force participation of welfare receivers, resulting in a sharply expanded need for child care services. The employment rate of adults receiving assistance from the Temporary Assistance to Needy Families (TANF) block grant - 90 percent of whom are women - grew rapidly from 11.3 percent in 1997 to 27.6 percent in 1999 (Brookings Institution 2003). Between 1998 and 2000, the number of children eligible for federal CCDF child care subsidies grew by approximately one million (U.S. Department of Health and Human Services 2001).

Although federal funding for child care programs initially increased in the post-welfare reform era, the need for child care clearly exceeds the level of federal support. In FY 2000, \$7.4 billion of federal Child Care Development Fund (CCDF) and TANF dollars were allocated to child care, compared to an allocation of \$2.1 billion in FY 1997 (Adams and Rohacek 2002). Even with these high levels of financial support, Mezey, Greenberg, and Schumacher (2003) estimate that states served only 15 percent of federally eligible children (approximately 1 out of 7) in FY 2000. In addition, the trend toward more adequate funding of child care appears to have been reversed in recent years. Ewen and Hart (2003) report that at least 13 states decreased their state investment in child care assistance in 2002. The lack of funding has resulted in states being unable to serve families who need

help; many states have developed waiting lists for assistance or have stopped accepting applications for assistance altogether. For example, as of early 2003, California had a waiting list with over 200,000 eligible children on it, and Tennessee and the District of Columbia had stopped accepting new applications (Ewen and Hart 2003).

The increases in work hours<sup>2</sup> and work participation<sup>3</sup> for TANF recipients required by new welfare legislation mean that the demand for child care arrangements will undoubtedly grow upon reauthorization. In fact, the Congressional Budget Office (2002) projects that in order to meet work participation increases proposed in the recent House Bill HR4, states would need to spend up to \$11 billion over five years, as well as an additional \$4.5 – 5 billion just to keep pace with inflation while maintaining programs at their current level. Additional work requirement mandates and ongoing funding shortages will force states to choose whether to allocate scarce child care funds to non-welfare low-income working families or to welfare recipients who are working longer hours (Parrott and Mezey 2003, Mezey 2003b). The CBO predicts that 200,000 additional children in non-welfare low-income working families will lose access to child care assistance after reauthorization. Mezey (2003a) estimates that 430,000 children will lose their child care assistance by FY 2008 under the bill proposed by the Senate Finance Committee.

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<sup>2</sup> The bill passed by the House in February 2002 (HR4) proposes an increase in work activity from 20 to 40 hours a week for single parents with a child under the age of six and from 30 to 40 hours for other single parents. The Senate Finance Committee passed a bill in October 2003 that increases work requirements from 20 to 24 hours for single parents with a child under the age of six and from 30 to 34 hours for other single parents.

<sup>3</sup> Both the House bill and the Senate Finance Committee bill require an increase in employment from 50 percent to 70 percent of the TANF caseload by 2008.

## How Does Child Care Assistance Affect Maternal Labor Force Participation?

Research has found a link between adequate child care and sustained labor force participation of mothers. Boushey and Gundersen (2001) finds that inadequate child care (measured by whether the child cares for his/her self, whether they are involved in any enrichment activities, and whether the adult-to-child ratio is less than that recommended by the American Academy of Pediatrics) is a serious hardship to the well being of families moving from welfare to work. The bleak employment opportunities available to low-income mothers are further compromised by the lack of available child care during non-standard work hours. The U.S. General Accounting Office (1997) reports that only 12 to 35 percent of child care providers were available during nonstandard hours (hours outside of 9 am to 5 pm), even though this is the time that many parents are most likely to be working and need child care (Presser, 1999). In addition to the lack of availability of child care, the price of child care is also a significant barrier to mothers' employment and earning potential. Researchers have used both evaluation and estimation techniques to identify a strong connection between child care costs, availability, and quality and mothers' labor force participation.

- By analyzing state agency data collected from welfare recipients in Massachusetts between June 1996 and August 1997, Lempke et al. (2000) find that child care costs and public expenditures significantly influence mothers' labor force participation. Decreasing child care costs increases the likelihood that a parent works and higher government child care spending increases the probability that mothers work. Also, more availability of full day kindergarten improves the probability that current and former welfare recipients will work.
- A study by Boushey (2002) reports that receiving assistance with child care payments increases employment duration for both welfare recipients and non-welfare recipient mothers, which gives them a strong opportunity for experiencing real wage growth in the long-run. Single mothers of young children who receive assistance with child care payments are 40 percent more likely than mothers who do not receive aid to stay employed for at least two years. Former welfare recipients with young children are 60 percent more likely to stay employed for two years if they receive child care help.
- Using data from two programs that subsidized child care expenditures for families in Kentucky, Berger and Black (1992) find that mothers receiving child care subsidies have a 12 percent higher probability of being employed than those not receiving subsidies.
- Kimmel (1998) uses the 1987 panel of the Survey of Income and Program Participation (SIPP) to estimate that increases in the overall cost of child care decrease the labor force participation of married mothers. The predicted labor force participation probability for single mothers in the SIPP sample is 0.58. Using a simulation model, the author estimates that with a subsidy for half of the cost of child care, the predicted labor force participation probability would increase to 0.63; and with a subsidy for the entire cost of child care, the predicted labor force participation probability would increase to 0.67.
- Based on a model developed using data from the Urban Institute's 1990

National Child Care Survey, the U.S. General Accounting Office (1994) predicts that providing full child care subsidies to mothers who currently pay their own child care expenses would increase the probability of work among poor mothers from 29 to 44 percent and that of near-poor mothers from 43 to 57 percent.

These findings and estimates suggest an important relationship between the cost of child care, maternal employment, and long-term job stability.

### **The Importance of Child Care Quality For Children's Well-Being and Mothers' Employment**

Not only are the availability and affordability of child care important, but the quality of the care also has a significant effect on mothers' labor force participation. Child care that is both reliable and of high quality benefits children and encourages parental labor force participation. Lempke et al. (2000) find that although the cost of child care influenced maternal employment, the stability and quality of the child care provided produce even larger effects on the probability of labor force participation than the cost of child care alone.

The quality of child care is important for children's well-being in addition to parents' job participation. Research indicates that the initial years of life are critical for children's long-run social, emotional, and cognitive development and that intervention in early childhood can help children overcome the obstacles created by poverty (Carnegie Task Force on Meeting the Needs of Young Children 1994, Shonkoff and Phillips 2000, Zigler and Styfco 2001, Campbell et al. 2002). High-quality child care can help to facilitate the process of development. Researchers have identified specific characteristics of quality child care facilities that promote learning, such as low child-to-staff ratios, small groups, positive caregiver-

child dynamics, and a healthy and safe environment equipped with materials and books. Child care with these characteristics is associated with increased cooperation and sociability, fewer behavior problems, and improved language ability in children (Love, Schochet, and Meckstroth 1996).

Many researchers have identified a link between quality child care and increased school readiness. Early intervention programs such as Head Start have been linked to increased educational attainment, decreased criminal activity, and positive spillover effects on younger siblings (Garces, Thomas, and Currie 2002). Helburn (1995) finds that children who attend higher quality child care centers perform better on measures of both cognitive (e.g., math and language abilities) and social skills (e.g., positive interactions with peers, absence of behavior problems etc.), and these skills are sustained over longer periods of time. Children who are traditionally at risk of not doing well in school (children whose mothers had lower levels of education) are even more affected by their quality of child care experience than are other children (Helburn 1995).

PRWORA requires states to spend at least four percent of their Child Care Development Funds (CCDF) to improve the quality and supply of care. However, many state child care subsidy programs have failed to meet this standard (Adams, Schulman, and Ebb 1998). The CCDF funds that have been set aside for increasing quality and supply are not enough to help states substantially increase the availability of high-quality child care arrangements. Researchers with the Children's Defense Fund found that in 2001 several states actually cut funding for quality improvement programs and while some states have made improvements, many continue to fail to meet basic quality standards (Ewen et al. 2002). Ewen and Hart (2003) find that ongoing state budget crises have reversed progress that was made in child care quality following the 1996

welfare reform. While states allocated 20 percent of total TANF funds to child care in 2000, discretionary spending declined by 0.4 percent (in inflation-adjusted terms) between 2001 to 2002 (Ewen and Hart 2003). Quality, as well as accessibility, of child care services have suffered, note Ewen and Hart (2003); many states, including Maryland, Wisconsin, and Vermont, have eliminated initiatives designed to improve training of providers and increase quality standards.

### **Policy Recommendations**

Given the clear evidence of the importance of quality, affordable child care to the well-being of families, sustaining child care assistance for all working families must be a top policy priority. Therefore, we recommend the following:

#### *Expand Funding:*

- The amount of money dedicated to child care by state and federal governments should be dramatically increased so that child care services reach all eligible children.
- If work requirements for TANF recipients are increased (as proposed by House and Senate Finance Committee), the federal government must significantly expand TANF funding of child care to meet the increased needs of working parents.

#### *Outreach to All Low-Income Families:*

- Child care assistance programs need to reach out to all low-income families, including the working poor, and not be restricted to families receiving welfare or leaving welfare. Welfare recipients and leavers currently make up the bulk of child care assistance recipients. Providing assistance to all families who are federally eligible helps the working poor stay employed and may provide the

support needed for the working poor to escape poverty.

- CCDF and TANF funds should continue to give families access to a choice of child care arrangements such as center based, family, and informal care, while encouraging improvements in quality of care.

#### *Improve Quality:*

- Dollars set aside for improving child care quality need to be significantly increased. This money can be utilized for purposes such as opening high-quality child care centers in low-income communities or improving the quality of those that already exist. States must also invest in education and training activities for child care staff and provide adequate compensation packages to maintain skilled and qualified child care providers (Park-Jadotte, Golin, and Gault 2002). One strategy to achieve this goal would be to federally mandate tiered reimbursement rates that reward higher reimbursements to child care providers who are nationally accredited.
- States should be required to set quality standards that will ensure that children receive quality care under both CCDF and TANF.

### **Conclusion**

Both parents and children, especially those in low-income and single parent families, suffer from inadequate investments in child care. Parents need affordable, dependable, and quality child care to secure and maintain successful employment and children need high-quality child care to grow up to be healthy, well-developed adults. Both federal and state governments need to make greater investments to make child care accessible and affordable for today's working families.

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