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## Child Care and Federal Policy

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## **Child Care and Federal Policy**

Due to dramatic changes in family structure and female labor force participation, particularly the employment of mothers of young children, non-maternal care for young children has moved into the forefront of U.S. politics. The extent to which the government should intervene in work/family choices by subsidizing paid work through child care support is hotly debated. The motivation for intervention is strong, however, due to perceived problems faced by workers with children. In particular, low-income families typically must have two earners to be financially independent, and certainly most single mothers must work to remain independent from welfare. The fact that employment patterns of mothers with preschool children have changed so dramatically in the second half of the twentieth century might motivate a reconsideration of the allocation of responsibility between families most in need without judging their work choices or imposing too great a distortion on these choices.

The social interest in child care policy is twofold. First, there is a strong link between child care and employment for both married and single mothers. Because of declining real wages for lesser-educated workers, as well as changes in social attitudes regarding female employment, mothers in two-parent families increasingly are likely to work for pay. Labor force attachment for single mothers is growing too, because of changing attitudes and welfare reform. The second social interest in child care policy comes from the relationship between child care and child development, and the latter's link to adult outcomes such as employability, productivity, and criminal behavior.

### **Child Care and Employment**

Because mothers in the United States are the primary caregivers for their children, when these mothers work for pay, they must arrange for the care of their children. Because quality care involves high labor costs, the cost of child care is relatively high and likely to remain so. This high cost is burdensome for middle-class families, but the most acute circumstances are those faced by the welfare-to-work population and the working poor. For these two groups (nearly identical in financial circumstances), child care expenses can be 25 percent or more of earnings, such a large percent of the monthly budget that it is truly a barrier to employment.

Child care policy can influence female employment behavior directly via subsidies that reduce the effective child care price or indirectly through other measures that influence child care availability or quality. Kimmel (in press) shows that the child care price elasticity of employment for married mothers is -0.9; that is, a 10 percent increase in hourly child care prices causes a 9 percent decrease in the average probability of employment. For single mothers, this elasticity is -0.2, while for low-income white single mothers, the elasticity jumps to -1.4. To get a better picture of the importance of child care costs, simulations can be run to gauge the impact on hourly child care subsidies on employment. For low-income white single mothers, employment probabilities increase for about 30 to 50 percent with a 50 percent subsidy, and they

more than double with either a full subsidy or a mixed subsidy based on income (Kimmel 1995).

There is a growing awareness of the link between the quality of the care an infant or toddler receives and the child's intellectual and social development (Barnett 1995). One problem in the market for preschool child care is that parents do not seem to be aware of what provider characteristics contribute to high-quality care, and even when they are aware, the dollar value they place on such quality care is insufficient to meet the costs of providing that care (Council of Economic Advisors 1997). How our school-aged children are cared for is also a quality issue. Many relatively young children (aged 6 to 12 years old) are left to fend for themselves after school. There is some evidence that significant improvements in the availability and quality of after-school care would reduce juvenile crime and other life-altering negative behaviors (Fight Crime: Invest in Kids 1988).

There are persistent shortages in the supply of infant care, off-hours care, and after-school care for school-aged children. These shortages will become more acute as welfare reform moves forward because of more stringent work requirements and the types of jobs that welfare recipients are likely to get. Another problem is that much child care is of poor quality, and poor-quality child care has the greatest negative impact on those children coming from already-challenged home environments (Cost, Quality, and Child Outcomes Study Teams 1995). Finally, there are equity, or distributional, concerns related to the high cost of child care, particularly for lower-income workers or those making the welfare-to-work transition.

### **Federal Policy and Legislation**

In 1993, about \$17.3 billion was spent by families on child care for children under 5 years of age (U.S. Census Bureau 1995). In fiscal 1997, about \$13.8 billion was spent by the federal government, largely in programs such as Head Start, the Child and Dependent Care Tax Credit (or its counterpart, the Exclusion of Employer Contributions for Child Care Expenses, otherwise known as flexible spending accounts), and the Child Care and Development Fund (the new child care block grant to states). Clearly, the federal government is already heavily involved in the various markets that are responsible for the care of young children.

In January of this year, President Clinton proposed several new child care policy initiatives involving approximately \$20 billion in federal funds. A quick search of the Internet for congressional activity regarding child care reveals over 50 proposals in the last year, although the most recent (spring 1998) Republican budget blueprint does not include any new child care spending. Because subsidizing child care affects the child care and employment choices that families make, politicians are wary of suggesting policies that seem to encourage nonmaternal care for young children; yet because so many mothers rely on nonmaternal care already, it is also politically smart to pay attention to these mothers' preferences for affordable, high-quality child care. President Clinton's broad child care policy package includes most of the proposals suggested by individual members of Congress, addressing affordability for lower- or middle-class workers, availability, and quality. One additional proposal from the Republican side concerns support for stay-at-home mothers in two-parent families.

From distributional as well as efficiency standpoints, policies that address basic

affordability concerns for the working poor and those making the welfare-to-work transition are most critical. Dollar for dollar, child care expenditures have the greatest impact on these groups and also may tend to impose the least distortion on work choices, given that paid work is necessary for most poor families. Of the current proposals under consideration, increases in funding for Head Start and the Child Care and Development Fund are the most well-targeted by these criteria. The 1996 welfare reform legislation articulates a national attitude that there are merits to work beyond the paycheck. The likely intergenerational benefits accruing from attachment to the mainstream economy are difficult to measure empirically but still form part of the basis of this new welfare policy. However, work for this group must first be possible, meaning that child care costs cannot exceed a welfare mother's paycheck after housing and food purchases. The GAO (1997) concluded that even before the latest major welfare reform, child care subsidies were insufficient to meet the demand for such support.

Affordability for the middle class is addressed with the increased funding for the Child and Dependent Care Tax Credit. However, this credit (also available through employer spending accounts) may be targeted too broadly, providing benefits for families having sufficient income to do without such support. The federal tax dollars could be better spent if targeted on more needy subpopulations like the working poor and the lower middle class. A move in this direction would be to make this credit refundable. As it exists currently, it is not broadly available to those who are the most financially needy, because the lowest income workers owe no federal income taxes, particularly after recent increases in the Earned Income Tax Credit. Adding refundability to the Child and Dependent Care Tax Credit could be financed in part by phasing the credit out at higher income levels. The affordability issues that the Republican party proposal addresses—namely, the budget problems faced by families with a stay-at-home mother—is addressed, although minimally, in the recently passed Child Tax Credit.

Legislation to provide funding to influence quality, such as the money allocated for quality in the new welfare reform bill and the proposals by Clinton, are good starts, although the expected outcomes from the specific programs proposed are unclear. Because some of the quality problems in this market arise from imperfect information, it would be useful for the federal government to implement a broad, national advertising campaign to help educate parents about quality child care and to direct them to already available resources that help them locate quality care.

### **Afterthoughts**

Women and families face a complicated set of choices, each with its own opportunity costs, in trying to resolve the work/family dilemma. While any resolution involves largely personal choices, there is a role for government, particularly for the working poor, for both equity and efficiency reasons. As for the current child care policy proposals, probably the most encouraging aspect of them is that our elected officials seem to be taking seriously the concepts that child care is a critical factor influencing the work decisions of mothers and fathers and that nurturing our children both psychologically and intellectually has a strong influence on adult outcomes.

### **Suggestions for further reading**

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