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Jean Kimmel
W.E. Upjohn Institute

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The Role of Child Care Assistance in Welfare Reform

Growing pressure for welfare reform in recent years has focused public attention on the issue of child care costs, both as an obstacle for low-income mothers trying to leave the welfare roles and enter the workforce and as a budgetary constraint for programs designed to facilitate the transition. While the child care problem has been discussed, however, its magnitude has not been appreciated fully.

Labor force participation behavior of mothers, particularly of single mothers, is inextricably linked with the availability of affordable, quality child care. Efforts to “make work pay” for welfare mothers often fail because of low wages combined with the high cost of child care. Child care costs are also high enough that when subsidies are included in a welfare reform package, the cost of the new program is likely to be greater than the present system. Would the public still demand welfare reform if there were no budgetary payoff? Are there policy initiatives that could better address the problem of child care for low-income working mothers?

Child Care Costs for single Mothers

The most significant cost of entering the workforce is the need to replace unpaid, maternal child care with paid, nonmaternal care. The financial burden is particularly great for single mothers. Typically, child care expenditures represent 8 percent of total earnings for a married couple, but 25 percent of earnings for a single mother. A single mother who earns \$8 to \$9 an hour (incorporating recent extensions to the Earned Income Tax Credit), pays 14 to 22 percent of her earnings for child care, depending on her wage and the mode of care chosen. However, single mothers pushed into the labor market by aggressive welfare reform are likely to earn a much lower hourly wage. For a single mother working full time at the minimum wage, child care expenditures can represent as much as 28 percent of earnings.

Opponents of increased child care subsidies note that working single mothers are more likely than married mothers to utilize the less expensive child care provided by relatives. In fact, while nearly a third of working single mothers rely on relative care, most of these are mothers who have only a limited commitment to the labor force; they tend to switch to center-based care when they are working full time. More important, recent studies have shown that relative care is of lower quality and less reliable than care by licensed providers. Relative care tends to be largely custodial, while nonrelative and center-based care tends to combine custodial and developmental care. Finally, center-based child care is perceived to be of higher quality than relative care and is used more often by working mothers who are financially able to choose.

Employment Effects of Child Care Subsidies

Econometric evidence based on simulations of a variety of child care subsidy schemes has

demonstrated the link between child care costs and availability and employment behavior. As reported in my paper, "Child Care Costs as a Barrier to Employment for Single and Married Mothers," the average probability of labor force participation for single mothers is 58 percent. With a subsidy that pays one-half of child care costs, this employment probability rises to 69 percent, and with child care cost totally subsidized, the employment probability rises to about 78 percent. Single mothers receiving some welfare support have an average labor force participation probability of 12 percent, which rises to 23 percent when half of their child care costs are subsidized and 38 percent when fully subsidized. The significant employment response of welfare mothers to child care subsidies shows the importance of this issue in welfare reform.

Several state and local welfare-to-work programs have been evaluated to analyze their costs and benefits, and to determine how effective the programs are in moving families out of poverty. Many have significantly increased the employment of welfare mothers, and case managers in these programs report that child care assistance is an important factor in easing the welfare-to-work transition.

Current Policies and Problems

Government is already involved in the provision of child care services. The Family Support Act of 1988 and the Omnibus Budget Reconciliation Act of 1990 contain provisions for states to provide child care assistance to families living in poverty or at risk of falling into poverty. However, although federal and state expenditures on these programs exceeded \$2 billion in 1992, only 5 to 6 percent of the AFDC caseload was served. Two-thirds of total federal child care expenditures in that year were devoted to the Dependent Care Tax Credit, which is unavailable to most lower-income families because it is not refundable.

The JOBS program (Job Opportunities and Basic Skills Training), an ambitious welfare-to-work program established in 1988, includes extensive subsidies for child care. State administrators report that the burden of providing child care services, which exceeds many states' willingness to pay, drives the entire JOBS program. JOBS-related child care expenditures were \$437 million as of 1992, an increase of 42 percent from the previous year. These large-scale child care expenditures are for a program that currently has the participation of fewer than one-third of JOBS clients and fewer than 15 percent of the total AFDC caseload.

The most important problems with these current efforts are the overall shortage of subsidized child care for low-income families, lack of financial commitment at the state level due in part to insufficient federal matching funds, and movement of low-income "client" families among child care assistance programs as the family eligibility status evolves. Also, clients report sporadic reimbursement of child care expenses.

Suggestions for Policy Makers

To transform welfare into a short-term, transitional program that moves clients out of poverty and into the workforce, policy makers must first gain public acceptance of the fact that such reform *will cost more money than the present system of simply writing checks*, at least for

the immediate future. Not only must additional funds be made available at the federal level, but states also must be encouraged to fully fund existing assistance programs. Estimates of the 1994 Clinton welfare reform package suggest that new spending on child care services would be the dominant program expense. For the phase-in period, child care assistance already available plus the extensions proposed by the reform package would account for 40 to 50 percent of total welfare-to-work expenditures.

Child care costs for getting all welfare mothers into the workforce cannot be estimated with precision, but would total many billions of dollars. While payroll taxes and increased economic activity would offset some of these costs, the net budgetary impact would still be sizable.

While increased child care spending will be a necessary component of any welfare reform package, there are some policy changes that would not require large new government expenditures. First, government child care programs are too diverse, with each having its own program administration office. The federal government should implement a national standard such as the innovative common intake system in Texas, which provides a single point of entry for all of the state's child care assistance programs.

A related policy suggestion is to give local decision makers more discretion in the allocation of funds across programs. This would improve the continuous access of low-income parents to child care assistance, not just during the transition period after they get a first job, but afterwards as they become part of the permanent work force.

Second, direct care subsidies should be paid directly to the provider or to the mother in the form of vouchers. This would eliminate the frequent delays in reimbursement experienced under the present system and encourage more child care providers to accept children of welfare mothers.

Third, an increase in the number and size of child care centers managed on-site by Public Housing Authorities would increase the availability of child care and reduce employment costs facing welfare mothers. Child care centers could also provide employment for some welfare recipients.

Finally, the Dependent Care Tax Credit should be refundable. This would have a small but significant impact on rates of employment of single mothers and would cost little because of increases in hours worked and reductions in welfare payments. In addition, eligible child care expenses and the maximum subsidy should be increased, and the credit should be phased out at higher income levels to finance these changes.

Final Thoughts

The broad issue with comprehensive welfare reform is whether getting a significant percentage of welfare mothers to work is worth the extensive costs, especially the substantial child care costs, such reform would entail. While the costs of welfare reform would be immediate,

the benefits would be experienced over a long period of time and would be difficult to measure. Advocates of welfare-to-work efforts argue that getting welfare recipients to work helps them serve as role models for their children and neighborhoods and connects these families with mainstream America, thereby reducing the intergenerational transmission of poverty and welfare dependence. While the larger debate continues, welfare reform that targets a limited percentage of welfare mothers and provides significant support services appears to be worth the investment.

Jean Kimmel is an economist at the Upjohn Institute.

Suggested Readings

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