Jean Kimmel

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 that 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.

(continued on p. 2)
From the Executive Director

Each year about this time senior staff members at the Upjohn Institute are engaged in evaluating the several dozen proposals submitted for funding through the Grant Program. This is one of two submission and review cycles. The other takes place in March. The Grant Program is an integral part of the Institute’s mission to conduct “research into the causes and effects of unemployment and measures for the alleviation of unemployment.” In keeping with its charter, the Institute strives to maintain a research program at the leading edge of policy issues at the local, state, and national levels. The Grant Program is intended to extend and complement the internal research of the Institute staff.

While specific topics have changed over time, reflecting pressing policy and research issues in labor economics along with staff interests and priorities, the key issues outlined in the first grant announcement could be equally relevant today. For instance, the 1976 announcement listed the following research fields to be of primary interest to the Institute: job creation, job stabilization, the matching of jobs and people, alleviation of unemployment hazards, the political science of manpower programs, and the quality of worklife. The 1994 grant announcement repeated many of these themes but under slightly different names: economic development, earnings replacement, workforce quality, and structural change. As the Institute staff has changed and expanded, new interests have been added to the research agenda, such as family employment issues, the role of formal education in worker training, and international comparisons of labor markets. Yet, these topics still point to the persistence of key employment issues and to the relevance and endurance of the Institute’s charter written more than 60 years ago.

Throughout its history, the Institute has encouraged research that is policy- and problem-oriented, experimental, innovative, and based on sound, defensible economic principles. We look for the same qualities in the grant proposals we review. Of primary interest are research proposals that offer a rigorous analysis of key employment issues and that can communicate these findings and insights to a broad audience of policy makers and practitioners alike.

We believe the Grant Program has been successful in several ways. First, it has encouraged top researchers to focus on specific labor issues. Since the inception of the formal grant program in 1976, the Institute has allocated $2.5 million to fund roughly 110 projects. Second, most of the completed projects have been published as Institute monographs, which are widely distributed to both academics and policy makers. Sales of the 104 titles published since 1980 have exceeded 120,000 copies. Third, much of the research contained in these monographs has gained the respect of the economic profession. This is evidenced by the significant proportion of monographs sold to professors and adopted for use in college and university classrooms, by the academic awards received by several monographs, and by the number of journal articles based on this research. Fourth, our monographs have been instrumental in shaping labor policy at both the federal and state level. Finally, there continues to be strong interest in the Grant Program. Each round we receive many more quality proposals than we have funds to support.

We appreciate the time and thought that many of you have devoted to putting together interesting and competent research proposals. The next grant round will be in March 1995, and we look forward to your inquiries and submissions.

Randall W. Eberts

The Role of Child Care Assistance in Welfare Reform (continued from p. 1)

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.

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.

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 first get a job, but afterwards as they become part of the permanent workforce.

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.

H. Allan Hunt
Rochelle V. Habeck

New Hope for Workers' Compensation Programs

The past two decades have witnessed a sea change in the way policymakers think about workers' compensation. Improvements in state workers' compensation programs, achieved in the mid-1970s, contributed to the runaway costs experienced in the 1980s. Rising costs to employers in turn have led to demands for reform and cost containment, threatening even to reduce the benefits for injured workers. Now a promising new approach to the problem, which would eliminate the need for contentious reform by enabling firms to reduce injuries and control their own costs, has been demonstrated by an Upjohn Institute study.

In 1972, the Report of the National Commission on State Workmen's Compensation Programs concluded that, "state workmen's compensation laws are in general neither adequate nor equitable." The report contained nineteen recommendations to improve benefit adequacy and equity, as well as coverage, for workers disabled by their jobs. One explicit goal of the Commission was to remove the competitive element in workers' compensation costs among the states by standardizing benefits, thereby taking workers' compensation programs out of the competition for economic development. The Commission proposed that if the independent state programs did not comply with its "essential recommendations" by July 1, 1975, federal standards should be created to ensure their compliance.

The response was impressive; over the next several years most states did address the adequacy and equity of their workers' compensation programs, and by 1980 compliance had increased from 36 percent to 64 percent. In addition, while the compliance level was increasing, the variance among the states was diminishing. None of the states ever came into full compliance, however, and by the mid-1980s it was becoming clear that the recommendations of the National Commission had lost their impetus. Business interests were arguing forcefully that compliance with the recommendations had increased the cost of workers' compensation unduly.

Workers' compensation costs did increase throughout the period, with only a slight recession-related retreat in the early 1980s. Figure 1 shows that total employer costs of workers' compensation as a percentage of payroll more than doubled from 1972 through 1992. During this same period, injuries involving lost workdays as measured under the separate OSHA-BLS reporting system increased from 3.3 to 3.9 per 100 full-time workers (up 18 percent). So the frequency of claims was increasing along with worker coverage and average benefit payments. The result was a ten-fold increase in overall workers' compensation program costs from $5.8 billion in 1972 to an estimated $62 billion in 1992. In fact, by 1990 workers' compensation cost containment had become a more potent political issue than benefit adequacy and equity.

Anxious to avoid being branded a "bad business climate," states have scrambled to respond to employer demands that costs be reduced. Many have enacted reforms aimed at improving cost control

Suggested Readings


Employment Research FALL 1994

in their workers' compensation programs, and Connecticut, Massachusetts, and Florida have actually reduced benefits in the last two years as a means of controlling program costs.

New Hope

While increased utilization, longer durations, higher benefit levels and exploding medical costs all played a role in the story of runaway workers' compensation costs, there is new hope for reducing costs and resolving the implicit conflicts between employers and workers without political confrontation. Recent research findings from the Upjohn Institute and other sources indicate that employers can effectively manage these costs themselves, and do not need to resort to legislative benefit reductions or other draconian measures to secure workers' compensation cost relief.

A four-year collaborative research project of the Upjohn Institute with Michigan State University and the Michigan Department of Labor was designed in 1989 to provide empirical evidence to substantiate the impacts of employer policies and practices on the prevention and management of workplace disability. It studied a stratified, random sample of 220 Michigan establishments with more than 100 employees from seven different industries who responded to a mail survey in the first half of 1991.

Two main sets of policy and practice interventions were evaluated in the study: (1) safety intervention, the attempt to prevent accidents from happening at all (measured as Safety Diligence, Ergonomic Solutions, and Safety Training); and (2) disability management, strategies to minimize the disability consequences of a given injury or disease arising from the workplace (measured as Proactive Return-to-Work Program and Disability Case Monitoring).

These interventions and the general management environment of the firm (measured as People Oriented Culture and Active Safety Leadership) are represented by variables which rate firm performance relative to other firms in the sample. Their marginal impact is estimated by correlating these variables with firm performance on outcome variables, including the number of injuries, the incidence of workers' compensation claims, and overall lost workday performance.

Figure 2. Employer Policies and Practices: Effect of 10 Percent Difference in Behavior

As shown in Figure 2, on the summary measure of total lost workdays per 100 employees, a 10 percent better self-rating on Safety Diligence translates into 17 percent fewer lost workdays across the firms in the sample. A 10 percent better self-rating on Proactive Return-to-Work Programs translates into 7 percent fewer lost workdays. Thus, the twin strategies of trying to prevent accidents in the first place (disability prevention), and working to ameliorate their disability effects after an accident (disability management), are shown to be highly productive in reducing workplace disability in establishments that have implemented them rigorously.

Site visits to a subsample of 32 of the establishments in the larger random sample survey extended these quantitative findings. Comparison of high- and low-disability firms, matched for industry and size, confirms that the low-disability group more frequently and more effectively engages in the disability prevention and management policies and practices under study. Table 1 shows that they have substantially higher achievement on Proactive Return-to-Work Programs, Wellness Orientation, and People Oriented Culture. They also
achieve significantly better performance on Safety Diligence and Ergonomic Solutions. Little difference was observed on Disability Case Monitoring. Illustrating the payoffs to these practices, Table 1 shows the very large differences in the performance of the high- and low-disability firms. For example, the high-disability firms had over three times as many wage-loss claims and over twelve times as many lost workdays per 100 employees. Further, workers’ compensation benefit payments per worker averaged $233 annually in the low-disability firms versus $839 in the high-disability firms, a difference of over $600 per year.

### Policy Implications

These research results demonstrate that disability can be prevented and managed; they suggest that those who do it well can expect to be rewarded with lower disability costs, more satisfied workers, and, ultimately, higher productivity.

From a public policy perspective, the implications are indirect. If cost improvements can be achieved without reducing benefits for legitimately disabled workers, then perhaps information dissemination and training programs in disability prevention and management “methods” would be more appropriate than repressive reform. The workers’ compensation program in Oregon was overhauled in 1990 to emphasize disability prevention, with joint labor-management safety committees, stiff fines for OSHA safety violations, and a pervasive public program of voluntary consultation by safety and prevention experts at individual workplaces. The number of disability claims declined by 20 percent and fatalities by 16 percent between 1989 and 1992, and employers in Oregon have realized more than a 40 percent reduction in workers’ compensation insurance rates since the reforms, despite significant benefit increases.

The policy implications for employers are very direct; employers should endeavor to take control of and manage their own situation. It is reasonable to expect that a typical employer could reduce disability and workers’ compensation costs by 25 percent or more with these private policies and practices. Recent articles in *Nation’s Business* and *Fortune* confirm this by reporting the experiences of firms that have “taken back the plant” from runaway workers’ compensation and disability costs through more attention to prevention activities, better case management techniques, and improved labor-management relations. As *Fortune* puts it “Workers’ Comp is a manageable expense.” The Upjohn Institute study provides further evidence that private methods of disability prevention and management, supported by a people oriented culture, can produce a “win-win” solution to the workers’ compensation cost crisis.

H. Allan Hunt is assistant executive director of the Upjohn Institute.

Rochelle V. Habeck is professor of rehabilitation counseling at Michigan State University.

### Table 1. High- and Low-Disability Firm Comparisons

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### Policies and Practices

- People oriented culture: 3.25 vs. 3.80
- Active safety leadership: 3.93 vs. 4.15
- Safety diligence: 3.80 vs. 4.18
- Disability case monitoring: 4.31 vs. 4.40
- Proactive return-to-work program: 3.41 vs. 4.07
- Wellness orientation: 2.76 vs. 3.48
- Ergonomic solutions: 2.97 vs. 3.43
- Safety Training: 3.99 vs. 4.20

*Recent articles in Nation’s Business confirm this by reporting the experiences of firms that have “taken back the plant” from runaway workers’ compensation and disability costs through more attention to prevention activities, better case management techniques, and improved labor-management relations. As Fortune puts it “Workers’ Comp is a manageable expense.” The Upjohn Institute study provides further evidence that private methods of disability prevention and management, supported by a people oriented culture, can produce a “win-win” solution to the workers’ compensation cost crisis.*
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