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Child Care after Welfare Reform

A KEY OBJECTIVE OF WELFARE REFORM is to move recipients, usually single mothers, into paid employment. For these mothers to go to work, someone must care for their children when the children are too young for school or when school is not in session. Hence providing (or subsidizing) child care has been integral to welfare reform at least since the Kennedy administration. It was certainly a major part of the debate leading up to the passage of welfare reform in 1996.

In this paper we were asked to address three questions: Is child care funding sufficient for the demands of welfare reform? Have states successfully expanded child care programs under welfare reform? What changes, if any, should be made to the child care provisions of federal law when the welfare law is reauthorized in 2002?

Funding

Is child care funding sufficient for the demands of welfare reform? Even though the 1996 welfare reform law considerably consolidated child care funding streams (Besharov, 1996), they are still numerous and complicated. Thus to develop a reasonably accurate estimate of how much money is available (and spent) for child care, one must combine often ambiguous information from many different programs. Even then it is still difficult to determine

the sufficiency of child care funding because there is no objective measure of "need."

Spending Increased about 60 Percent

The 1996 welfare law created the Child Care and Development Fund (CCDF), by repealing the legislative authority for three child care programs with differing program rules and combining their funds with additional funds to create the new CCDF block grant.

FEDERAL FUNDING STREAMS. States may use CCDF funds to aid families with incomes up to 85 percent of the state median income for families of the same size as the applicant family. The mother (the father, too, if it is a two-parent family) must be either working or in an employment and training activity, and the child must generally be under age 13. CCDF funds may also be used to subsidize care for children at risk of abuse or neglect or who need child care as a protective service.

The CCDF contains three separate federal funding streams, which, in 1999, were a base allocation of \$1.2 billion in entitlement funds for which no state matching is required; an additional \$1 billion in entitlement matching funds, available to states that meet a maintenance of effort (MOE) requirement, which is based on their 1994 or 1995 spending level (whichever is higher); and a discretionary fund of about \$1 billion (U.S. House, 2000). In 1999, CCDF federal and state spending, not counting transfers from the Temporary Assistance for Needy Families (TANF) program, was \$4.6 billion. States must spend at least 4 percent of their CCDF funds to improve the quality and availability of child care, but no more than 5 percent for administrative activities.

States can also use unspent welfare funds for child care. Recognizing that as welfare caseloads fell the need for child care would grow, the welfare law gives states two ways of using unspent TANF funds to pay for child care. They can either transfer up to 30 percent of their TANF block grant to the CCDF or use TANF funds directly to pay for child care. Most states do the former; many do both. In 1999 states transferred \$2.4 billion in federal funds from TANF to the CCDF, with \$1.7 billion actually spent that year. Direct state spending through TANF totaled an additional \$1.1 billion. Thus total TANF spending on child care (through transfers and directly) amounted to about \$2.8 billion in 1999 (HHS, 2000; Falk, 2001; and GAO, 2001).

The Social Services Block Grant (SSBG) provides funding to states for a variety of social services, including child care. In 1997 the Children's Defense

Fund estimated that states spent 20 percent of the SSBG on child care (Children's Defense Fund, 1997). If states had continued to spend this portion of their grant on child care, 1999 spending would have been \$380 million.

Often overlooked in discussions of child care funding is the Child and Adult Care Food Program (CACFP), which provides meals and snacks to children in child care. The CACFP is an entitlement that goes to licensed child care centers and family or group day care homes serving both low- and middle-income children. In 1999, CACFP subsidized meals for 2.6 million children at a cost of \$1.6 billion.

Head Start should also be included in this list because it provides the equivalent of child care services as well as educational and social services for children in families below the poverty line. In 1994, Head Start served about 740,000 children (mostly 3- and 4-year-olds) at a total cost of \$3.7 billion, which was almost 43 percent of total federal expenditures on child care. In 1999, Head Start served 831,000 children at a total cost of \$4.7 billion, almost one-third of federal child care expenditures (Head Start Bureau, 2000). Most Head Start programs, however, are only part day and part year, so they need to be supplemented if they are used to care for children whose mothers work full time (GAO, 1999a).

FUNDING AMOUNTS. Piecing together an unduplicated total of child care spending is no simple task. Because the welfare caseload began to decline in 1994, it seems appropriate to focus on the increase in spending between 1994 and 1999. During that period, combined federal and related state funding rose by 60 percent, from \$8.9 billion to \$14.1 billion (both in 1999 dollars) (see table 18-1). But not all of this money was for expanded services; some was designated for "quality" improvements. In 1999, \$323 million in CCDF funds and \$148 million in Head Start funds were used for quality improvements. These amounts are excluded from the following analysis, leaving \$13.6 billion, or an increase of \$4.7 billion from 1994, available for direct child care services.

Ample Funding for "Current" Patterns

Was this additional \$4.7 billion sufficient to meet the demands of welfare reform? Yes, and more so—but only if the measure is whether funding was sufficient to reflect long-standing patterns of paid and unpaid care within those increases in the labor force participation of low-income mothers. In fact, according to that measurement, most states seem to be providing child care to all CCDF-eligible families with incomes below the poverty line who seek aid.

Table 18-1. *Federal and Related State Child Care Spending in 1994 and 1999*
Millions of 1999 dollars

<i>Program</i>	<i>1994</i>	<i>1999</i>
Head Start	3,738	4,660
Child Care and Development Fund	3,021	4,600
Child and Adult Care Food Program	1,517	1,625
Social Services Block Grant	627	380
TANF transfers ^a	...	1,700
TANF spending ^a	...	1,139
Total	8,903	14,104

Source: Authors' calculations based on Head Start Bureau (2000); U.S. Department of HHS (2000); Falk (2001); U.S. GAO (2001); U.S. Department of Agriculture, fax received from the Food and Nutrition Service, April 18, 2001; U.S. Office of Management and Budget, *Budget of the United States, Fiscal Year 2000*, Historical Tables (GPO); and Children's Defense Fund (1997).

a. TANF = Temporary Assistance for Needy Families.

Between 1994 and 1999 the national welfare rolls declined by 54 percent. At first glance, this sharp drop in welfare reciprocity, involving about 2.7 million families and 4.4 million children, suggests that there must have been a big increase in the need for child care.

LOW TAKE-UP RATES? Surveys of the families that have left welfare, called "leaver studies," indicate that as many as 80 percent do not receive child care subsidies when they leave welfare (Schumacher and Greenberg, 1999). For example, in a review of four leaver studies with representative samples of leavers and sufficient information about child care use, the U.S. General Accounting Office (GAO, 1999b) reported that 17 to 27 percent of all leavers received a child care subsidy at the time of the survey. (Although the caseload may have declined in part because there were fewer entrants, the data to assess these numbers and the reasons for nonentry are not available. Thus we rely on the leaver studies as a proxy for assessing what is happening as a result of the broader caseload decline.)

And yet most observers, including the GAO and even the Children's Defense Fund, have concluded that the child care needs of welfare reform have been accommodated. For example, a 1999 GAO (1999a) report concludes that, in the post-welfare reform period, although low-income parents still face difficulties finding care for infants, for children with special needs, and during nonstandard work hours, "care for preschool children generally was not difficult to find" (p. 11). Thus in testifying before the House Committee on Ways and Means Subcommittee on Human Resources in 1999,

Helen Blank of the Children's Defense Fund said: "New federal child care funds have enabled most states, at least temporarily, to meet the increased child care needs of families on welfare generated by the initial stages of the implementation of the new welfare law. They have also allowed a number of states to help more nonwelfare, low-income working parents with their child care expenses" (p. 2).

EXPLANATIONS. How is it possible for only 20 percent of former welfare mothers to be receiving child care benefits (GAO, 1999b) and yet, in Blank's words, for the states also to be meeting "the increased child care needs of families on welfare"? It turns out that many women who left welfare did not actually "need" child care assistance in order to leave the rolls. We rush to emphasize that this does not mean that child care assistance would not have been financially beneficial to many welfare leavers, just that many did without it. There are several reasons why so many families that left welfare were able to go without child care.

First, many of the mothers who have left welfare are not working. These mothers seem to be relying on other family or household members or other sources of government support such as disability payments (Besharov and Germanis, 2000). The leaver studies and other research suggest that only about 60 percent of welfare leavers are working, and that only 75 percent of them (45 percent of all leavers) are working full time (Isaacs and Lyon, 2000; Schumacher and Greenberg, 1999). In light of these work rates, real world take-up rates are substantially higher, as much as two-thirds higher. For example, in its review of leaver studies the GAO found that the take-up rate for employed mothers who left welfare ranged from 27 percent to 38 percent (GAO, 1999b).

Second, many of the children whose mothers had left welfare were already in care. For example, in 1994, even before recent declines in welfare case-loads, about 45 percent of poor 4-year-olds (and 21 percent of poor 3-year-olds) were already in Head Start. Over half of these children were on welfare (in 1999 the figure was about 30 percent).

Third, some of the leaver mothers who work have incomes above the eligibility limits or that require co-payments large enough to make it seem not worthwhile to seek child care assistance. According to the leaver studies, we estimate that about 30 percent of leavers have family incomes above the poverty line, where co-payments begin in earnest, and about 10 percent of leavers have family incomes that make them ineligible for aid.

Fourth, of the leaver mothers who work, many have school-age children who do not need care, or at least not enough hours of care for them to go to

the trouble of seeking a government subsidy. Using administrative data from the U.S. Department of Health and Human Services, we estimate that 45 percent of the children who left welfare were between the ages of 6 and 18. Although the regular school day may not permit a parent to work full time without having a child care arrangement as well, many children are involved in after-school activities, such as sports or clubs, reducing the need for such supplemental arrangements.

Summing up, we can perform the following rough calculation: Starting with the children of all leavers, subtract those with mothers apparently not working (40 percent, leaving 60 percent of the total); then subtract those whose family incomes make them ineligible (10 percent, leaving 54 percent of the total); and then subtract those age 13 and older, who are not age-eligible (8 percent, leaving 50 percent of the total). Of the remainder who are theoretically eligible for aid, 32 percent (16 percent of all leavers) are preschool children with full-time working mothers who, presumably, need full-time child care; 42 percent (21 percent of all leavers) are children in Head Start or school with full-time working mothers and thus do not need full-time child care; 12 percent (6 percent of all leavers) are preschool children with part-time working mothers who, presumably, need only part-time child care; and 14 percent (7 percent of all leavers) are children in Head Start, kindergarten, or school with part-time working mothers and thus probably do not need child care. By our calculation, then, the percentage of all children of leavers who need full-time care is roughly 16 percent, which is less than the percentage of families reported in leaver studies to be receiving child care subsidies (between 17 and 28 percent, according to the GAO, 1999b).

However, if one adds to that figure the children who need part-time care, a somewhat different story emerges. By our calculation, 27 percent would require part-time care. That would mean that 43 percent of all leaver children are theoretically eligible for full- or part-time child care assistance (16 percent plus 27 percent). If we assume that the leaver figures are accurate, then not all leaver children eligible for aid receive it (28 percent as the upward bound in the studies who receive subsidies vs. 43 percent by our calculation of those who are eligible and need care).

Moreover, we hypothesize that the difference between take-up rates and estimated need is caused by the fact that, although most leaver children requiring full-time care receive it, many (if not most) leaver children needing part-time care do not. Instead, we further hypothesize that somewhat higher-income families needing full-time care are being given priority over leaver families needing only part-time child care. A number of state policies formalize this priority, and at least one multistate survey found informal policies to

the same effect. (Rules limiting assistance for "in-home" care are another barrier to child care assistance, again one that falls most heavily on families that need only part-time child care.)

Implementation

Have states successfully expanded child care programs under welfare reform? Again, the answer is yes, largely because of the widespread use of child care vouchers. Vouchers have made it easier for low-income parents to use the excess capacity of providers while lowering the barriers of entry into the market for subsidized care for the full range of formal and informal providers. However, state and federal policies place substantial barriers in the way of receiving assistance for part-time care and for care in the family home.

Expansion of Supply

Between 1994 and 1999, about 1.2 million children were added to child care subsidy programs. This expansion, most observers agree, was accomplished with relative smoothness. The major credit seems to go to the widespread use of child care "certificates," which are the equivalent of vouchers (Besharov and Samari, 2000).

TAPPING EXCESS CAPACITY. At least until recent expansions, the child care market had a high level of excess supply, especially for home-based providers (Kisker and others, 1991). Vouchers allowed parents to go directly to providers that had vacancies or that could expand to meet the increased demand, thus avoiding a cumbersome, slow-moving contract and grant-making process. Vouchers also opened the doors to an array of licensed centers and family day care homes by reducing the paperwork and other administrative tasks related to serving subsidized clients. The director of a center in Boston noted that contracts with the state (to purchase slots) required the completion of more than fifty pages of forms each year. Establishing eligibility to serve clients with vouchers, on the other hand, required only the completion of a five-page form.

NEW PROVIDERS. Vouchers also lowered the already low barriers to entry into the child care market. They permitted government funds to flow to unlicensed providers, for whom entry into the child care market requires little more than finding customers. Most states do not require these providers to complete training or make many adjustments to their homes. Even health and safety requirements seem relaxed in operation, if not as a matter of policy.

Vouchers have also made it easier for new center-based providers to enter the market—by giving them the opportunity to attract customers without having to get a large government grant or contract. Providers can start small, with minimal start-up costs, and grow as their business expands. One provider in Milwaukee, who now owns three child care centers, opened her first day care home with a \$4,000 personal investment (Besharov and Samari, 1999).

ACCESS TO MORE PROVIDERS. Voucher systems have increased parental choice by allowing government funds to go to all types of providers. First, as mentioned above, vouchers allow parents to use relatives and other unlicensed providers, who can be much more flexible in the hours and form of care they provide. Second, they allow parents to use centers and other providers that previously had served only the more affluent.

Incentives for Low-Quality Care?

The choice that vouchers give parents is constrained by reimbursement and co-payment rules. A major question is whether these rules distort parental decisionmaking by creating incentives for them to use low-quality care or by discouraging them from claiming a subsidy altogether.

REIMBURSEMENT SCHEDULES. Before the 1996 reforms, federal law required states to offer reimbursement rates based on the 75th percentile of local market rates. But because of varying local conditions, this national standard was too high in some communities, and, perhaps, too low in others. In 1996, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) dropped this requirement for the CCDF; it now requires that “payment rates for which assistance is provided must be . . . sufficient to ensure equal access for eligible children to comparable child care services in the State or substate area that are provided to children whose parents are not eligible to receive assistance.” (HHS regulations now call the 75th percentile a “benchmark.”)

Although about thirty states still base their rates on the 75th percentile (see Gabe, Lyke, and Spar, 1999), many used their new freedom to set lower (or higher) rates. For example, Massachusetts sets reimbursement rates based on the 55th percentile of local market rates, and California reimburses up to the 93d percentile. Some child care experts argue that even the 75th percentile is too low, that it drives many parents to use lower-cost and, hence, lower-quality care. There appears to be a fallacy in such reasoning: Why should government subsidies equal the most expensive care in the commu-

nity, when most members of the middle class do not use such care because of its cost? The better measure is whether reimbursement rates are set at a reasonably high percentage of what middle-class or more financially comfortable families pay.

But some states do set reimbursement rates lower, sometimes, as with Massachusetts, at least as low as the 55th percentile of local market rates. Depending on the distribution of cost and quality among providers in the same category of care, a very low reimbursement rate could lead some parents to choose inadequate care, but there is no systematic evidence that this is happening.

CO-PAYMENTS AND SLIDING SCALES. A major purpose of co-payments is fairness: Families that can afford to pay for a larger share of child care costs should do so. Thus, and in keeping with the CCDF requirement, most if not all states take family income into account in setting co-payments. Co-payments are generally not required from families below the poverty line, and often quite modest ones are required for families immediately above the line.

As with reimbursement schedules, states must be careful not to set co-payment rates too high, lest they discourage the use of the child care subsidy or encourage the use of inadequate child care; they also must not set it too low, lest they fail to reflect the ability to pay or have no effect on parental decisionmaking. Careful research in other fields establishes that co-payments can do both.

NO APPARENT IMPACT ON USAGE PATTERNS. In theory, therefore, low reimbursement rates and high co-payments might lead low-income parents to use low-cost providers, that is, to use home-based, often unlicensed care instead of center care. The available evidence, however, does not support these fears. Long-standing patterns of child care use have apparently not changed under vouchers and welfare reform.

For example, in 1998 and 1999, Bruce Fuller and Sharon Lynn Kagan (2000) examined the child care experiences of 948 randomly selected single mothers and their children who had recently entered welfare reform programs in California, Connecticut, and Florida. The researchers interviewed the mothers, observed their children's child care environments, and evaluated their children's cognitive and social development.

Fuller and Kagan concluded that "the welfare-to-work push on single mothers is placing a growing number of children in mediocre and disorganized child care settings" (p. 4). But, in fact, according to Fuller and Kagan's own data, the children of "welfare reform" were placed in center-based, fam-

ily day care, and relative-provided care at about the same rate as all other American children, regardless of income. Moreover, they were more likely than other low-income children to be in licensed centers. Specifically, 34 percent of the children were in center-based care, a figure significantly higher than the national figure for low-income families. The Census Bureau estimates that nationally, 22 percent of preschoolers in care with family incomes below the federal poverty line are in center-based care, and 30 percent of preschoolers in care with family incomes above the federal poverty line are in center-based care (U.S. Census Bureau, 1997, table 6). Figures for family day care and relative-provided care were about the same regardless of income.

These findings are echoed by research conducted by Stefanie Schmidt, Freya Sonenstein, and Jeffrey Capizzano (1999). Using data from the Urban Institute's National Survey of America's Families (NSAF), they showed that in 1997 "the child care arrangements of current welfare recipients, former welfare recipients, and high-income children [did] not differ significantly" (p. 10). The researchers further noted that the proportion of children in each type of care had not changed significantly over time. A comparison of Census Bureau data from 1994 and the 1997 NSAF data reveals similar patterns of use for working mothers with children under 6 years of age. The Urban Institute researchers also noted that "the use of family day care homes or relative/babysitter care does not differ significantly by welfare status and income. While there has been much discussion in the child care policy arena about welfare recipients depending heavily on relatives to care for their children, our results indicate that this group [is] no more likely to use this form of care than other groups" (p. 10).

These studies have some weaknesses, but they suggest strongly that most parents have not turned to informal care in the wake of welfare reform. How should one interpret this lack of change in child care patterns? We believe that it suggests that current child care subsidies are not large enough to shift underlying parental preferences. Parents prefer center-based care for old preschoolers because of its presumed cognitive and social advantages. They prefer family-based care for younger children because they value the warmth of individual care for infants and toddlers. And they rely on family-based or in-home care for part-time care because of its flexibility and convenience. In this context, and in light of the next section, we conclude that child care subsidies are, in essence, a form of financial support for low-income families.

Barriers to Assistance for Part-time and In-home Care

In general, most eligible leaver families seem to have access to the process of obtaining child care aid. There are some reports that mothers do not know

that they are eligible for benefits (Schumacher and Greenberg, 1999), or that some caseworkers discourage them from seeking benefits, but these seem to be fairly limited—unless the issue is part-time care or in-home care. To be blunt, it appears that many of the families leaving welfare that use part-time or informal/in-home care are not receiving assistance, while families with somewhat higher incomes are receiving assistance for full-time care.

PART-TIME CARE. Many mothers who have left welfare only need assistance for part-time care. As described above, many of their children are already in school, Head Start, or some other similar program that provides the equivalent of child care. Moreover, using data in the leaver studies, we estimated that 25 percent of employed leavers work part-time (about 15 percent of all leavers) and thus need only part-time care. However, current federal and state child care policies make it difficult—and often not worthwhile—for low-income parents to obtain assistance for part-time care.

An indeterminate number of states have formal or informal policies against providing aid to mothers working part-time. In Pennsylvania, for example, published rules require that parents work at least twenty-five hours a week in order to receive a child care subsidy. This means that families with a full-time earner receive preferential treatment. A Pennsylvania mother with two children, ages 4 and 5, working full time at \$10 an hour (\$20,000 per year) would be eligible for a child care subsidy. By contrast, a mother with two younger children, a newborn and a child age 1, who prefers working only twenty hours a week so she can spend time with her very young children and who earns only \$8 an hour (\$8,000 per year), would be ineligible for child care assistance. This bias exists, even though her actual child care expenses might be the same as those of the mother working full time, because child care costs are higher for infants and the discount for part-time care may be limited.

The assumption behind these state policies seems to be that mothers can make informal and less expensive arrangements for part-time care. From the political right, one also sees a tendency to believe that poor mothers should work full time; and from child care advocates, one senses a desire to encourage licensed care. But whatever the intention, the result is the same: Financial need is not the sole basis for deciding who gets assistance, and some families with higher income get benefits while families with lower incomes do not.

In addition, many states have imposed co-payment requirements that do not distinguish between full- and part-time care (and do not even consider the number of children in care), so that the co-payment can be prohibitively high for the amount of care needed. For example, in many states the co-payment

for a family with an annual income of \$20,000 is about 10 percent, or \$2,000 per year. The average cost of full-time family day care for a 4-year-old in full-time care is about \$4,000, but only about \$2,400 if the care is part-time. In the case of a two-parent family in which the mother works part-time, the amount of the co-payment approaches the cost of family day care and probably exceeds what a relative would be paid. John Pawasarat and Lois M. Quinn (1998) of the University of Wisconsin–Milwaukee Employment and Training Institute, noted this effect in Wisconsin: “Child care payment schedules are tied to family income rather than cost of care. These schedules tend to subsidize high cost, high volume child care use where the co-payment can be ignored and penalize low-cost use for parents employed part-time or with school-age children” (p. 3). In addition, the requirement that eligibility be regularly redetermined, although reasonable, may discourage parents from seeking assistance, especially for small amounts of aid.

IN-HOME CARE. Many of the mothers who have left welfare, like American mothers in general, tend to prefer informal or home-based care, especially for very young children and part-time care. In 1994 about 56 percent of poor preschoolers with employed mothers were in care in their own home (36 percent) or in family day care (20 percent), which is about the same as the 62 percent of preschoolers with employed mothers with annualized incomes above \$36,000 (32 percent and 30 percent, respectively), and even about the same as the 58 percent of preschoolers with employed mothers with annualized income above \$54,000 (31 percent and 27 percent, respectively).

However, current federal and state child care policies make it difficult, and often not worthwhile, for low-income parents to obtain financial assistance for informal or home-based care, especially if it is part-time. The barriers to obtaining aid for part-time care were described earlier. In addition, many states have imposed prohibitions or limitations on paying family or household members, including subjecting them to the minimum wage and other requirements of the Fair Labor Standards Act; and background check requirements, even for close family members, discourage informal providers from agreeing to accept vouchers. Some informal providers simply do not want any involvement with the government, especially if it means that they have to pay income taxes.

This issue of in-home care is particularly significant. The U.S. Department of Labor has classified in-home child care providers as domestic service workers subject to the Fair Labor Standards Act. Consequently, the U.S. Department of Health and Human Services has advised state child care agencies that in-home providers are covered by the minimum-wage and tax laws.

However, HHS has not provided much guidance on how these rules affect subsidized in-home care and instead says that states have "considerable latitude" in implementing this type of care. But that does not settle the legal issue. As a result, some states appear to ignore the issue, and others require parents who use in-home care to pay the difference between the subsidy rate and the minimum wage (an effective increase in the parental co-payment).

FORMAL AND INFORMAL RATIONING. In many states, the income limits for child care benefits were established far above the incomes of most welfare leavers and without regard to the funds available; that is, more families are eligible than there are funds for them. At the extreme, four states set their income limits at the maximum allowed under CCDF (85 percent of state median income), but they actually provide aid to no more than 9 to 15 percent of eligible children. Most states have set their income limits below the maximum allowed under federal law, as low as 43 percent of state median income, but even under these lower income limits no state serves more than about 30 percent of eligible children, with most serving far less. Rationing, either formal or informal, is the inevitable result.

One way of rationing is to support full-time care rather than part-time care. Another important form of rationing is the widespread use of waiting lists. When income-eligibility levels are higher than the available funding, agencies create waiting lists with internal priorities in an attempt to ensure that they serve the most needy. A common approach is to guarantee benefits to welfare leavers (as long as they are not earning above income limits) and to put other families on a waiting list until it is clear there is enough money to cover them. Apparently, the waiting lists are worked through on a first-come, first-served basis regardless of income, as long as income does not exceed the state eligibility limit. As a result, many families with higher incomes are served before those with lower incomes.

Last, agencies ration child care benefits by not telling eligible families about them. Researchers at the National Center for Children in Poverty and Abt Associates have found that some agencies minimize their outreach efforts "because state and local staff feared that it would create a demand they could not meet" (see Collins and others, 2000, p. 47).

States have apparently not felt the need to address these inequities, probably because the organized community of child care advocates has been eager to create conditions favoring the continued expansion of coverage and use of licensed care. The states have also been discouraged from doing so by uncertainty about current policies and funding levels. As we saw, unspent TANF funds, either transferred to the CCDF or spent directly, account for about 38

percent of what would have otherwise been CCDF expenditures. Because TANF funds are viewed as likely to be only a temporary source of support for child care, states have been reluctant to start the arduous and politically controversial process of developing more elaborate priority systems.

Resolving questions about the future shape and funding levels of both the CCDF and TANF would encourage states and localities to engage in the kind of long-term planning that is needed. Helpful would be a small change that lengthens the accounting period for spending child care funds. One reason that states are so careful about child care spending is that dealing with surpluses and shortfalls at the end of the year can be administratively cumbersome and politically embarrassing. If states had greater flexibility to "bank" funds from one year to the next because they underspent—or to borrow from the next year because they overspent—they might be more willing to give lower-income families the kind of priority now accorded to welfare leavers.

In addition, there appear to be real barriers to some families eligible for subsidies, especially for part-time and in-home care that are caused by restrictive reimbursement and co-payment rules (especially regarding care by other family members), the way waiting lists are administered, the apparent unwillingness of some providers and parents to subject themselves to government scrutiny such as background checks and tax audits, and caseworker and client confusion generally. At the same time, it appears that there has been a partial monetization (providing payments for care that was previously free) of family-provided child care—with some evidence of informal "rebates" to parents. Most states have not addressed these issues with sufficient intensity, largely because of uncertainty about the amount and nature of future federal funding for child care. Depending on how these issues are resolved, they could greatly increase child care expenditures without a corresponding increase in child care slots.

Recommendations

What changes, if any, should be made to the child care provisions of federal law when the welfare law is reauthorized? The following recommendations are made within the context of child care being a predominantly state program, for which there should be a minimum of federal micro management.

Data

Data about child care patterns and spending should be more comprehensive, more reliable, and more timely. The data currently available are not sufficient

to understand patterns of child care usage and to identify gaps in coverage. Better data are needed, for example, on the income and demographics of recipients, the nature and hours of care, the hours of work, and parental co-payments.

Funding Streams

Funding streams should be less categorical and less rigid, and there should be a more stable source of key child care funding than unspent welfare funds. To facilitate longer-term policy planning (and budgeting), statutory provisions should be updated to reflect the sharp decline in welfare caseloads and the correspondingly large increases in child care spending. Greater efforts are also needed to coordinate Head Start with the broader world of child care so that it is relevant to working mothers—and to welfare reform.

Barriers to Usage

State and federal policies should not create unnecessary barriers to the use of child care subsidies for part-time care and for care by home-based providers, especially family and household members. Current policies concerning eligible providers, minimum-wage payments for care in the family home, and co-payment requirements serve as barriers to subsidies for part-time care and care by home-based providers, especially family and household members. A good place to start would be to make sure that the Fair Labor Standards Act is not applied to close relatives who provide child care.

Income Eligibility

The current federal income limit for receiving child care benefits (85 percent of state median family income) should be replaced by a generalized requirement that states give priority to serving children according to financial need. The current eligibility limit is misleadingly high and causes policy and administrative confusion; in many states, waiting lists rather than financial need are used to ration subsidies.

Vertical and Horizontal Equity

Eligibility and subsidy rules should be better tied to financial need and should reflect differences in family and household composition. Consideration should be given to cashing out child care benefits (or at least making vouchers partially refundable). The current system discriminates against mothers who receive child care help from other family members or who need only part-time care, while giving an unfair bonus to mothers who have other sources of household assistance.

Quality Earmarks

In the year 2000, money devoted to quality improvement amounted to about \$750 million. From 1997 through 2000, about \$2 billion was spent on various quality initiatives with little discernible result. Despite the rhetoric, knowledge about the characteristics of child care that make the most difference for children is quite rudimentary (Besharov, 2000; Haskins, 1992). Parental judgment, informed by substantially better research, should be harnessed to improve the quality of child care. Efforts to improve the quality of child care (in 1999 about \$323 million or 6 percent of CCDF expenditures, and \$148 million or 3.2 percent of Head Start expenditures) should focus on a national research agenda of randomized studies of best practices in child care and funding that allows subsidized parents to spend more of their own money on child care and, in return, to have the provider receive a higher payment from the government.

Increased Funding?

This chapter does not suggest what additional funding, if any, should be provided because the answer depends on the resolution of various policy issues, some of which are outlined here. However, it may be helpful to enumerate the most important policy issues that could affect costs: fuller participation of income-eligible families (even if it means the monetization of services already being provided); greater use of licensed and center-based facilities (which are more expensive than informal care); an increase in mandatory activities for welfare recipients (such as work experience and job training) so that more mothers will need care for their children; and a reduction in the amount of unspent welfare funds available for child care (either because case-loads rise or because the welfare block grant is reduced).

COMMENT BY

Kristin Anderson Moore, Martha Zaslow,
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Child care is a "twofer." It is one of the components of welfare reform that addresses the needs of both mothers and children. It addresses both the goals of welfare reform and concerns about child well-being and development. It addresses the taxpayer's goal of moving parents from welfare to work, and it

has at least the potential to address children's prospects for becoming self-sufficient citizens.

The chapter by Douglas Besharov and Nazanin Samari provides a helpful overview of the first component: the parental perspective. Our first suggestion is to change the title to reflect the content more precisely. The chapter focuses almost entirely on issues of child care funding and supply. Ideally, these issues could be expanded to address what we think is an equally critical issue: the implications of child care for children. Specifically, we think we need to know whether child care quality and stability are sufficient to support the development of children.

Child care as a critical context for young children should not be ignored by society. It is important to all children, but may be especially important as an opportunity for the development of children in poverty. Indeed, it is a source of concern that children are relegated to the "special issue" category in this volume. AFDC was Aid to Families with Dependent *Children*, and the implications of welfare reform for children should continue to be a central concern.

A second set of issues involves the adequacy of child care funding and supply. As noted by Besharov and Samari, government has implemented a series of large increases in funding for child care. The federal and state response has been more supportive than many expected. Nevertheless, we are not convinced that the case is made (or can be made) that the quantity, quality, or stability of available child care is adequate from the perspective of the child.

Even from the perspective of the mother, it is not clear that supply is adequate. On the one hand, there has been a multi-billion-dollar increase in funding. On the other hand, in many places there are long waiting lists. Also, there seems to be a lack of care for parents who work part-time, work non-standard hours, have infants, or have children with special needs. In addition, several studies have found that parents who are given adequate subsidies or vouchers tend to switch to formal care, suggesting the possibility that parental preferences are not actually being realized.

We are uncomfortable arguing that, because broad patterns of care did not change between 1994 and 1997, there are no apparent impacts on usage patterns. Without more recent data, and relying on nonexperimental evidence, we do not know what the child care arrangements would have been. Also, we do not know whether there have been substitutions within a particular category. For example, within a type of care such as family day care, the ratio of children to adults may have risen, but available data do not capture such a change. It may be that even more parents would have gone to work if child care were more available or were more satisfactory to parents. There is some evidence linking duration of participation in welfare-to-work employment

activities with parents' perceptions of quality of care. In addition, parents working part-time might work full-time if care were more available. Thus, despite important funding increases, it is not definitively clear that the supply of child care or the funding for child care is adequate even for the needs of welfare reform. This leads to a third point.

There are critical data needs. Besharov and Samari have spliced together what they describe as "ambiguous" numbers from varied sources. It is surprising to us that one might use the level of funding to assess whether supply meets demand. Besharov and Samari are direct about their discomfort with doing so also, arguing that "data about child care patterns and spending should be more comprehensive, more reliable, and more timely." Timeliness is a critical problem. In several places, the survey data used appear to be from 1997, which makes it hard to draw conclusions about the period after states and families accommodated to the 1996 reforms.

Given available data, it is risky enough to conclude that supply is sufficient to meet the needs of welfare reform. It would be unwise to assert that available care meets the needs of children, and the authors have stopped short of drawing this conclusion. Instead, they call for better data. This is the right call.

Not only do we need more comprehensive and timely data; we also need more differentiated measures. At present it is not clear to what extent different aspects of child care quality affect children's development. The chapter is quite critical of available measures to assess quality, and we agree that available measures are merely steps in the right direction. What aspects of care matter for which outcomes for which children? If we measured child care quality in a more differentiated way, would we find that particular child outcomes increase as particular aspects of quality improve? Are there thresholds, such that low-quality care undermines development? Is there improvement after that threshold is crossed? Or does it help a lot to improve quality at the low end, and only help a little to bring care from adequate to good, or from good to excellent? What constitutes quality for children of different ages?

In testimony before the Senate Committee on Health, Education, Labor and Pensions (2000), Besharov argued that there is no strong evidence that child care quality matters. There is considerable disagreement on that point, and as yet, there is no strong evidence that quality has large effects on child development. Moreover, we agree with Besharov and Samari that better measures and better data are needed to better address this billion-dollar question.

It is also time to address the issue of supply more directly. This could be done by conducting a national child care supply study. In addition, we need to have better information about a range of policies, as well as about vouchers. For example, how do the Earned Income Tax Credit and the child care

credit fit into the supply and demand picture? The availability of vouchers has probably facilitated welfare reform, but as parents become the working poor and move into the middle class, the tax system plays an increasingly important role. Also, policies vary across states and communities, and information on the implications of these differences has been hard to come by.

Fourth, Besharov and Samari call for a major increase in research on child care. Again, we agree. Child care is not only a multi-billion-dollar issue; it is an issue with possible implications for children's development and school readiness, for subsequent school success among low-income and minority children, and for parental mental health as well as employment. We hope a new series of studies can move on to examine the real question, which is, in our opinion, "What factors enhance or undermine the development of children?" rather than "Does child care inherently benefit or harm children?"

The need for a series of planned variation experimental studies to address this question in the context of welfare reform and the needs of the working poor seems clear. Perhaps, because we as a nation are spending billions of dollars on child care, a research agenda in line with the importance of the issue can now be forthcoming.

There are specific questions about child care quality that should be part of the research agenda. For example: How does training for child care workers affect the quality of care? What are the effects of improving ratios and group sizes? How do wage subsidies for providers affect quality? Do quality improvements affect the hours worked by mothers? What is the role of stability or turbulence in child care?

In sum, our concern about the weakness of the data used by Besharov and Samari to reach the conclusions that the supply of child care is adequate and that states have enough money to meet the child care needs of mothers leaving welfare leads us to strongly endorse their call for better data and more research.

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