TESTIMONY OF DOUGLAS J. BESHAROV
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before the Subcommittee on 21st Century Competitiveness
of the Committee on Education and the Workforce[*]
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Chairman McKeon, and Members of the Subcommittee on 21st Century Competitiveness:

Thank you for inviting me to testify on the adequacy of current funding levels for government-sponsored child care. My name is Douglas J. Besharov. I am a resident scholar at the American Enterprise Institute for Public Policy Research, where I conduct research on children and families. I am also a professor at the University of Maryland School of Public Affairs, where I teach courses on family policy, welfare reform, and evaluation.

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 testimony I address three questions: (1) Is child care funding sufficient for the demands of welfare reform? (2) Have states successfully expanded child care programs under welfare reform? And, (3) what changes, if any, should be made to the child care provisions of federal law when the welfare law is reauthorized?

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Funding

Is child care funding sufficient for the demands of welfare reform? Even though the 1996 welfare reform law considerably streamlined 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." Let us explain.

Spending increased about 65 percent

Before the passage of welfare reform, there was much complaint about the overlapping and confusing nature of these funding streams (Besharov 1996). A GAO report, for example, described the 90 early childhood programs in 11 federal agencies and 20 offices that made up the federal government's approach to child care (U.S. General Accounting Office 1994). As part of the new welfare reform law–The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA)--Congress streamlined the major child care funding streams (at least partially) and provided a framework and incentives for sharp increases in spending.

Federal funding streams. The 1996 welfare law created the Child Care and Development Fund (CCDF), which repealed the legislative authority for the three AFDC-related child care programs with differing program rules--At-Risk Child Care, AFDC/JOBS Child Care, and Transitional Child Care--and combined their funding with CCDBG funding to create the new CCDF block grant (Greenberg, Lombardi, & Schumacher 2000).

States may use CCDF funds to aid to families with incomes up to 85 percent of 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 thirteen. (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 funding streams: (1) a base allocation of $1.2 billion in entitlement funds for which no state matching is required; (2) an additional $1 billion in entitlement matching funds, available to states that meet a maintenance of effort (MOE) requirement, based on their 1994 or 1995 spending level (whichever is higher); and (3) a discretionary fund of about $1 billion (U.S. House of Representatives 2000). In 1999, CCDF federal and state spending, not counting transfers from the Temporary Assistance for Needy Families block grant (TANF), was $4.8 billion. (As discussed below, 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 fall, the need for child care would growth, the welfare law gives states two ways of using unspent TANF funds to pay for child care. They can either (1) transfer up to 30 percent of their TANF block grant to the CCDF; or (2) use TANF funds directly to pay for child care. Most states do both. In 1999, states transferred $2.4 billion in federal funds from TANF to the CCDF, with $1.6 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 $2.7 billion (U.S. Department of Health and Human Services 2000; Falk 2001; and U.S. General Accounting Office 2001).

The Social Services Block Grant (SSBG) provides funding to states for a variety of social services, including child care. The Children's Defense Fund estimated that in 1997 states spent 20 percent of the SSBG on child care (Children's Defense Fund 1997). If states continued to spend this portion of their grant on child care, 1999 spending would have been $380 million.

Often overlooked in discussion of child care funding is the Child and Adult Care Food Program (CACFP), which provides meals and snacks to children in child care. In 1999, CACFP subsidized meals for 2.6 million children at a cost of $1.6 billion (U.S. Department of

Agriculture 2000). The CACFP is an entitlement that goes to licensed child care centers and family or group child day care homes serving both low- and middle-income children.

Head Start should be considered as part of 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 three and four year olds) at a total cost of $3.7 billion (in 1999 dollars), which was almost 43 percent of total child care expenditures. In 1999, Head Start served 831,000 children at a total cost of $4.7 billion, almost one third of 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 (U.S. General Accounting Office 1999b, pp. 6-7).

Funding amounts. Piecing together a unduplicated total of child care spending is, hence, no simple task. Since 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 federal-related state funding rose from $8.9 billion to $14.1 billion (both in 1999 dollars). Not all these funds, however, were available for expanded services. Some were designated for "quality" improvements: In 1999, $323 million in CCDF funds and $148 million in Head Start funds. (These amounts are excluded from the following analysis.)

Table 1
FEDERAL CHILD CARE SPENDING
1994 and 1999
(Billions of 1999 dollars)

Program	1994	1999
Head Start	$ 3,738	$ 4,660
CCDF	3,021	4,755
CACFP	1,517	1,599
SSBG	627	380
TANF Transfers		1,600
TANF Spending		1,139
Total	$ 8,903	$14,133

Ample funding for "current" patterns

Was this additional $4.7 billion in annual child care spending sufficient to meet the demands of welfare reform? (Remember, the funds for "quality" enhancements have been removed from the analysis.) Yes, and more so–but only if the measure is funding sufficient to reflect increases in the labor force participation of low-income mothers *within long-standing patterns of paid and unpaid care*. In fact, within that constraint, most states seem to be providing child care to all CCDF eligible families with incomes below the poverty line.

Between 1994 and 1999, national welfare rolls declined by 54 percent. At first glance, this sharp drop in welfare recipiency, involving about 2.7 million families and 4.4 million children, suggests a big increase in the need for child care. (Although the caseload decline may also be influenced by fewer entrants, the data to assess these numbers and the reasons for nonentry are not available. Thus, we rely on the leavers studies as a proxy for assessing what is happening as a result of the broader caseload decline.)

Low take-up rates? Surveys of the families that have left welfare, called "leaver studies," however, indicate that as many as 80 percent do *not* receive child care subsidies when they leave welfare. For example, in a review of four leaver studies with representative samples of leavers and sufficient information about child care usage, the U.S. General Accounting Office (GAO 1999b, p. 22) reported that 17 percent to 27 percent of all leavers received a child care subsidy at the time of the survey.

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 report concludes that, in the post-welfare reform period, although low-income parents still face difficulties finding care for infants, children with special needs, and nonstandard hours, "care for preschool children generally was not difficult to find." (GAO 1999a, p. 11) Thus, in testifying before the House Committee on Ways and Means Subcommittee on Human Resources in 1999, Helen Blank (1999) 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.

Explanations. How could such a small percentage of former welfare mothers be receiving child care benefits (20 percent)–and yet, in Blank's words, for the states to have met "the increased child care needs of families on welfare"? It turns out that many women who have 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.)

First, many of the mothers who left welfare are not working. (The mothers who are not working seem to be relying on other family or household members or other sources of government support.) (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. In light of these work rates, real world, take-up rates are substantially higher, as much as 50 percent 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 199b, p. 22).

Second, many of the children whose mothers left welfare were already in care. For example, in 1994, even before recent declines in welfare caseloads, about 45 percent of poor four-year-olds (and 21 percent of poor three-year-olds) were already in Head Start. Over half of these children were on welfare (compared to about 30 percent in 1999) (U.S. House of Representatives 2000, p. 972).

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

Fourth, of the 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–especially given the "barriers" described below. Based on administrative data from the U.S. Department of Health and Human Services, for example, 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 full-time parent to work without having an additional child care arrangement, 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 very rough calculation: Starting with the children of all leavers, subtract out those with mothers apparently not working (40 percent, leaving 60 percent of the total), then subtract out those whose families are not income eligible (10 percent, leaving 54 percent of the total), and then subtract out those who are not age-eligible (ages 13 and older) (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 part-time child care; and 14 percent (7 percent of all leavers) are children in Head Start or kindergarten 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 well-within the percentages reported in leaver studies to be receiving child care subsidies (between 17 and 28 percent, according to the General Accounting Office, for example).

However, if one adds in the number of children needing part-time care, a somewhat different story emerges. By our calculation, 27 percent of all leaver children probably 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 vs. 43 percent by our calculation).

Moreover, we hypothesize that the difference is caused by the fact that–while 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, 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 multi-state survey found informal policies to the same effect. (Rules limiting assistance for "in-home" care, discussed below, are another barrier to child care assistance, again falling most heavily on families needing 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 polices 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, almost a 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 child care "certificates," which are basically vouchers (Besharov and Samari 2000).

Tapping excess capacity. At least until recent expansions, the child care market has a high level of excess supply, especially for home-based providers. For example, according to the Profile of Child Care Settings Study conducted by researchers at the Urban Institute and Mathematica Policy Research, Inc., in early 1990, 12 percent of spaces in child care centers were empty, as were 18 percent of family day care spaces (Kisker, Hofferth, and Farquhar 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 a whole array of licensed centers and family day care homes, by greatly 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 over 50 pages of forms each year. Establishing eligibility to serve clients with vouchers, on the other hand, only required the completion of a 5-page form each year.

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. They can start small, with minimal start-up costs, and grow as their business expands. For example, one provider in Milwaukee, who now owns three child care centers, opened her first day care home with a $4,000 personal investment.

Access to more providers. Voucher systems have increased parental choice for those low-income families receiving child care assistance 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 before had served only the more affluent.

Some parents need only half-day care; some need evening or after-hours care; and others need full-day care, perhaps with extended hours. Some parents want their children cared for by other family members; some want to use neighbors; others want a nursery school and still others a child care center, perhaps in a church. Some parents may want all their children in one place even if they are of different ages; others may not care. Some parents will want their children close to home; others will want them close to work. The variations are almost infinite.

Under grant or contract systems, it is a practical impossibility for public authorities to cover all these possibilities. Vouchers, on the other hand, can accommodate such variation with relative ease (Ross and Kerachsky 1996). In fact, voucher systems may be the only way to serve families whose child care needs vary so much--as the parents enter and exit work. (The alternatives would be to keep children in care even when the mother is not working--or to pay a fee to keep the slot available until she starts working again. Neither makes much sense.) However, as we will see, under current policies, there are substantial barriers to assistance for part-time care.

Incentives for low-quality care?

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

Reimbursement schedules. Reimbursement rates have to reflect the conditions of the local market for child care. Too low, and providers will not accept publicly subsidized families (or will cut back on the scope or quality of their services). Too high, and providers will raise prices without necessarily benefitting the family or the government; if enough children are involved, overall market prices may rise. Or, providers may attempt to price discriminate, setting a lower price for parents without subsidies, or they may give illegal rebates to subsidized families, as discussed in a later section.

The applicable federal law originally required states to offer reimbursement rates based on the 75th percentile of local market rates. But because of varying local conditions, this nationwide standard was too high in some communities, and, perhaps, too low in others. (It all depends on the distribution of prices in the particular area.) Thus, in 1996, PRWORA lifted this requirement for the CCDF, which now requires that "payment rates for which assistance is provided . . . are 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 30 states still base their rates on the 75th percentile, many used their new freedom to set lower (or higher) rates (Gabe, Lyke, and Spar 1999, p. 9). For example, Massachusetts sets reimbursement rates based on the 55th percentile of local market rates, while California reimburses up to the 93rd percentile (U.S. Department of Health and Human Services 1998). 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 be *equal the most expensive care* in the community, 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, as low as the 55th percentile of local market rates. A very low reimbursement rate could lead some parents to chose extremely inadequate care, but that depends on the distribution of cost and quality among providers in same category of care, and there is no systematic evidence that this is happening.

Copayments and sliding scales. Under grant and contract systems, many providers (probably most) maintain sliding fee scales based on income. A "copayment" is the same concept applied to a voucher regime. Thus, the CCDF requires states to impose copayments, and, as a result, all states require copayments from parents.

A major purpose of copayments is fairness: Those families that can afford to pay for a larger share of child care costs should be required to do so. Thus, and in keeping with the CCDF requirement, most if not all states take family income into account in setting copayments. Copayments are generally not required from families below the poverty line, and are often quite modest for families immediately above it.

As with reimbursement schedules, states must be careful not to set copayment rates too high, lest they discourage the use of the child care subsidy (or encourage the use of inadequate child care); nor too low, lest they fail to reflect the ability to pay or have no effect on parental decision making. Careful research in other fields establishes that copayments can do both. In Congressional testimony, Helen Blank (1999) complains that:

> Child care subsidy programs . . . close doors to families when they ask parents to pay such high parent fees that child care remains unaffordable. In a number of states, low-income working families who do manage to get child care help are facing such high copayment levels that their child care costs remain prohibitive.

Blank seems to be referring to copayment rates that are such a high percentage of family income that it does not pay for the mother to work, or for her to seek the subsidy. But how could that be, assuming that, no matter what, the parents need to purchase child care? The answer is that the required copayment may be higher than the cost of care that is available to parents, a real possibility when the size of the copayment is based on parental income rather than the cost of care, especially when there is not adjustment for part-time care. (The way copayments can act as barriers to assistance is discussed below.)

No apparent impact on usage patterns. In theory, therefore, low reimbursement rates and high copayments might lead low-income parents to use low-cost providers, that is, to use home-based (and often unlicensed) care instead of center care. The available evidence, however, does not support these fears. Long-standing patterns of child care usage have apparently not changed under vouchers and welfare reform.

For example, in 1998 and 1999, Bruce Fuller of the University of California-Berkeley and Sharon Lynn Kagan of Yale University 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." (Fuller and Kagan 2000, p. 4) But, in fact, according to Fuller and Kagan's own data, the children of "welfare reform" were placed in center-based, family day care, and relative-provided care at about the *same rate as all other American children, regardless of income*. Moreover, compared to other low-income children, they were more likely to be in licensed centers. (In the sample, 34 percent of the children in care 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. Figures for family day care and relative provided care were about the same regardless of income.

These findings are echoed by research conducted at the Urban Institute by Stefanie Schmidt, Freya Sonenstein, and Jeffrey Capizzano. Using data from the Urban Institute's National Survey of America's Families (NSAF), they show that in 1997, "the child care arrangements of current welfare recipients, former welfare recipients, and high-income children [did] not differ significantly." The researchers further noted that the proportion of children in each type of care has not changed significantly over time. A comparison of Census Bureau data from 1994 and the 1997 NSAF data reveal similar patterns of use for working mothers with children under six years of age. (Although different surveys are involved, the Urban Institute researchers concluded that they were comparable.) (Schmidt, Sonenstein, and Capizzano, 1999, p. 10)

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 are no more likely to use this form of care than other groups." (Schmidt, Sonenstein, and Capizzano, 1999, p. 10)

These studies have various weaknesses, but they strongly suggest that child care usage has not shifted toward informal care in the wake of welfare reform. Nevertheless, one should assume that patterns vary in individual states. But even in a state like Wisconsin, where the framework provides substantial financial incentives for informal care, parents seem to be choosing providers in accord with their preexisting preferences: Home-based care for infants and toddlers, center-based care for older preschoolers, and, for school-aged children, a hodgepodge of help for before- and after-school care.

How should one interpret this lack of change in child care patterns? We believe it suggests that current child care subsidies are not large enough to shift underlying parental preferences. Parents prefer center-based care for older 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. (In the last section, we ask whether this reality should be accepted or whether per child subsidies should be increased enough to change these underlying preferences.)

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 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 left welfare need assistance only 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, based on the leaver studies, we estimate that 25 percent of employed leavers work part-time (about 15 percent of all leavers) and, thus, they too need only part-time care. However, current child care policies (federal and state) make it difficult--and often not worthwhile at all–for low-income parents to obtain assistance for such part-time care.

An indeterminant number of states, for example, have formal or informal policies against providing child care aid to mothers working part time. In Pennsylvania, for example, published rules require that parents work at least 25 hours a week in order to receive a child care subsidy. This means that in some states families with a full-time earner receive preferential treatment. For example, in Pennsylvania, a 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. At the same time, a mother with two younger children, a newborn and a child age 1, who prefers part-time work for 20 hours a week (in order to spend time with her very young children) and earns only $8 an hour ($8,000 per year), would be ineligible for child care assistance, because the state requires that she work at least 25 hours per week. This bias exists, even though her actual child care expenses might be the same as those of the mother working full-time, since child care costs are higher for infants and the discount for part-time care may be limited.

The assumption 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 copayment requirements that *do not distinguish between full- and part-time care (nor even by the number of children in care)*, so that the copayment becomes prohibitively high for the amount of care needed. For example, in many states, the copayment 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 copayment approaches the cost of family day care, and probably exceeds what a relative would be paid. John Pawasarat and Lois M. Quinn 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 copayment can be ignored and penalize low-cost use for parents employed part-time or with school-age children (Pawasarat and Quinn 1998).

In addition, recurrent eligibility redeterminations that, 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 home-based care, especially for very young children and part-time care (Farkas, Duffett, and Johnson 2000). For example, 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 child care policies (federal and state) make it difficult--and often not worthwhile at all–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 above. In addition, many states have imposed: (1) 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 (2) background check requirements, even for close family members, that discourage informal providers from agreeing to accept vouchers. (Some informal providers simply do not want any involvement with the government, especially since that might mean that they have to pay income taxes, but that disinclination is not really a barrier to subsidies.)

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 (HHS) has advised state child care agencies that in-home providers are, thus, covered by the minimum wage and also subject to tax requirements (U.S. Department of Health and Human Services 1998, p. 39949). 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, while 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 copayment), while other states simply do not allow it.

As a result of these and other rules and procedures, conclude researchers at the National Center for Children in Poverty and Abt Associates Inc., many states have “instituted implicit or explicit policies to limit or eliminate” the use of in-home care (Collins, Layzer, Kreader, Werner and Glantz 2000, p. 79).

Formal and informal rationing. In many states, the income limits for child care benefits were established without regard to the funds available, that is, more families are eligible than there are funds for them. At the extreme, for example, four states set their income limits at the maximum allowed under the CCDF (85 percent of state median income), but they actually provide aid to no more than 9 to 15 percent of eligible children (U.S. Department of Health and Human Services 2000). 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, as we have seen, is to support full-time care rather than part-time care. Another important, but less visible, form of rationing is the widespread use of waiting lists. When income-eligibility levels are higher than available funding, agencies create waiting lists with internal priorities–in an attempt to ensure that they serve the most needy. A common approach is too 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 so long as it is under the income-limit. In many cases, this means that families with higher incomes are served before those with lower incomes.

Lastly, agencies ration child care benefits by not telling eligible families about them. Abt researchers have found that some agencies minimize that outreach efforts “because state and local staff feared that it would create a demand they could not meet” (Collins, Layzer, Kreader, Werner, and Glantz 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 transfered to the CCDF or spent directly) account for 37 percent of state expenditures. (Head Start is excluded.) Since 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.

Thus, resolving the future questions about the future shape of both the CCDF and TANF (including finding levels) would encourage state and localities to engage in the needed long-term planning. 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 in “banking” funds from one year to the next because they underspent–or borrowing 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.

Thus, 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 copayment 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 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 predominantly a 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 copayments.

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 or household members. Current policies concerning eligible providers, minimum wage payments to care in the family home, and copayment requirements serve as barriers to subsidies for part-time care and care by home-based providers, especially by family or household members. A good place to start would be to make sure that the Fair Labor Standards Act is not applied against close relatives providing 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 based on financial need. The current eligibility limit is misleadingly high and causes policy and administrative confusion; in many states, waiting lists rather than pure 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: Efforts to improve the "quality" of child care (about $323 million or 6 percent of CCDF expenditures and $148 million or 3.2 percent of Head Start expenditures in 1999) should be focused on: (1) a national research agenda of randomized studies of best practices in child care; and (2) rules that allow subsidized parents to spend more of their own money on child care and, in response, to have the provider receive a higher payment from the government. In the year 2000, quality funds amount to about $850 million. From 1997 through 2000, about $2 billion will have been spent on various "quality" initiatives with little discernable result. Despite the rhetoric, knowledge about what characteristics of child care that make the most difference for children is quite rudimentary. Parental judgment, informed by substantially better research, should be harnessed to improve the quality of child care.

Increased funding? This paper 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 in the paper. However, it may be helpful to enumerate the most important factors: fuller participation of income eligible families (even if it means the monetization of services already being provided); greater use of licensed and center-based care (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; a reduction in the amount of unspent welfare funds available for child care (either because caseloads rise or because the welfare block grant is reduced); and an increase in the number of working poor.

Conclusion

The largely undisputed sufficiency of funding for child care after welfare reform is based on current usage patterns--including large amounts of informal care, often provided free to parents. Most child care advocates call for efforts to increase the take-up rate for child care assistance--and to prevent parents from cashing out their child care benefits through informal rebates--because they worry about the quality of these arrangements. In fact, many advocates call for a major effort to improve the quality of child care for low-income children, including a vast expansion of Head Start-like services.

In other places, this writer and other observers have commented on the relatively ambiguous impact of expensive, "quality" child care and early childhood programs on child outcomes. This raises the policy--and moral--question of how much money should be spent on child care *versus* other programs for disadvantaged children? That is not a question one often hears in the child care debate, but it should be decisive.

Compare the $69 billion more per year that we estimate that it would cost to provide full-time, early childhood education to all preschoolers eligible for CCDF assistance (and heightened quality care for older children) with what we spend on some other programs under the jurisdiction of the Senate Committee on Health, Education, Labor and Pensions: elementary and secondary education--about $15 billion; student financial assistance--about $10 billion; and Older Americans Act--about $1.6 billion.

It may well be that there are better ways to improve child outcomes with another $10,000-$15,000 to spend per child for three to five years. Imagine the following: A single mother with two preschoolers working full time at the minimum wage earns $10,300. Then we spend $20,000-$30,000 of taxpayer money to enroll her two preschoolers in an early childhood education programs. What if we used part of the money to support basic, decent child care, and used the rest to allow her to work part-time, so she could spend more time with her children? Or, what if we used the rest of the money to increase the Earned Income Tax Credit (EITC), so that she could take more money home? Or, what if we used the rest to remove the marriage penalty embedded in the EITC and other quasi-welfare programs? Or, more radically, what if we just gave her the cash?

The failure to be clear about the weak evidence behind claims for the effectiveness of "quality" child care and early childhood education programs prevents policymakers from asking such questions. Does anyone doubt the answer that the mother in this example would give? Doesn't that tell us something very important?

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Table 1-1

Rising Federal and Related State Spending on Child Care

(Billions of 2000 dollars)[a]

Program	1994	2000	Increase	Potential new full/part-time slots[b]
CCDF	$3.123	$6.934	122%	1,027,000[c]
AFDC/TANF[d]	.155	2.093	1,250%	571,000
Head Start	3.865	5.267	36%	118,000
SSBG	.634	.365	-42%	-83,000
Title I Preschool	.170	.425	150%	188,000
21st Century	0	.453		450,000
CACFP	1.573	1.684	7%	N/A[e]
Total	**$9.520**	**$17.221**	**81%**	**2,271,000**

[a] This increased child care funding is not just for welfare leavers. Conversely, this table does not include the growing state spending on kindergarten and prekindergarten programs.

[b] Many child care programs do not have data on the actual number of children served. The potential new slots created for each program was estimated by dividing the increase in spending by the average cost per slot. For the CCDF, the average cost was estimated to be about $3,250 per slot. Due to the absence of other data, this cost per slot was applied to the TANF and SSBG programs. For Head Start, the actual increase in slots is reported. For Title I preschool and the 21st Century programs, the estimated cost per slot for each program is used ($1,335 and $1,000, respectively).

[c] The calculation of potential additional slots for the CCDF is adjusted downward to reflect the $477 million in quality funds which generally do not go to creating slots. If it were included, the figure would be 1,173,000, and the total of potential new slots would be 2,417,000. The $477 million figure for quality spending is based on the assumption that states spent 4 percent ($235 million) of state CCDF funds (excluding MOE) are spent on quality plus the $242 million in quality earmarked funds.

[d] The 1994 AFDC figure is the amount for the AFDC dependent care disregard.

[e] The CACFP subsidizes meals for children in child care and supplements other child care subsidies; thus it does not directly increase the number of slots.

Sources:
CCDF: For 1994, expenditures for the CCDF-predecessor programs based on data from the U.S. Department of Health and Human Services as reported in U.S. House of Representatives, Committee on Ways and Means, *2000 Green Book* (Washington, D.C.: Committee on Ways and Means, October 6, 2000), p. 621. For 2000, CCDF expenditures are based on U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau, *Fiscal Year 2000 State Spending Under the Child Care and Development Fund (CCDF) as of 9/30/2000* (Washington, D.C.: Author, 2001), available from: http://www.acf.dhhs.gov/programs/ccb/research/00acf696/overview.htm, accessed November 6, 2001. The number of children receiving child care subsidies in 1994 and 2000 was estimated by dividing the 1994 cost of CCDF predecessor programs and the 2000 CCDF cost (less quality expenditures) by the 1999 average cost per child (all in 2000 dollars).

TANF: For the 1994, the cost and number of AFDC recipients using the dependent care disregard, is based on U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, *Characteristics and Financial Circumstances of AFDC Recipients: Fiscal Year 1994* (Washington, D.C.: U.S. Department of Health and Human Services, 1995), Table 39. Expenditures for 2000 based on U.S. Department of Health and Human Services, Administration for Children and Families, Office of Administration, Office of Financial Services, "TANF Program Expenditures in FY 2000," 2001, available from: http://www.acf.dhhs.gov/programs/ofs/data/q400/index.htm, accessed October 2, 2001. For the 1994 number of AFDC recipients using the dependent care disregard, *see* U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, *Characteristics and Financial Circumstances of AFDC Recipients: Fiscal Year 1994* (Washington, D.C.: U.S. Department of Health and Human Services, 1995), Table 39. The number of children receiving child care subsidies in 2000 was estimated by dividing the 2000 TANF child care expenditures by the 1999 average cost per child (all in 2000 dollars).

Head Start: Expenditures are based on appropriations as reported in U.S. Department of Health and Human Services, Administration for Children and Families, Head Start Bureau, *2001 Head Start Fact Sheet* (Washington, D.C.: Author, 2001). For 1994, the number of Head Start children was derived from U.S. House of Representatives, Committee on Ways and Means, *1996 Green Book* (Washington, D.C.: Committee on Ways and Means, November 4, 1996), pp. 935-936. For 2000, the number of Head Start children was derived from U.S. Department of Health and Human Services, Administration for Children and Families, Head Start Bureau, *2001 Head Start Fact Sheet* (Washington, D.C.: Author, 2001).

Social Services Block Grant: About 20 percent of SSBG spending has been used for child care (*see* Children's Defense Fund, *Federal and State Government: Partners in Child Care* (Washington, D.C.: Author, October 24, 1997)). The funding estimate is based on this assumption and spending levels as reported in Executive Office of the President, Office of Management and Budget, *Historical Tables: Fiscal Year 2002* (Washington, D.C.: Author, 2001), Table 12.3. The SSBG does not have data on the actual number of children served. The estimated number of child care slots in 1994 and 2000 was estimated by dividing the estimated child care spending by the average cost per slot under the CCDF program, about $3,250 per slot. Due to the absence of other data, this cost per slot was applied to the SSBG program.

Title I Preschool: Author's estimate of spending based on enrollment data for 1994 and 2000 and funding for the 1999-2000 school year as reported in U.S. General Accounting Office, *Title I Preschool Education: More Children Served, but Gauging Effect on School Readiness Difficult* (Washington, D.C.: Author, GAO/HEHS-00-171, September 2000), p. 7.

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Child and Adult Care Food Program (CACFP): U.S. Department of Agriculture, Food and Nutrition Service, "Child and Adult Care Food Program," available from: http://www.fns.usda.gov/pd/ccsummar.htm, accessed October 2, 2001. The CACFP subsidizes meals for children in child care and supplements other child care subsidies; thus it does not directly provide child care slots.