



# Child care subsidies and employment outcomes of low-income families



Yoonsook Ha \*, Daniel P. Miller

Boston University School of Social Work, 264 Bay State Road, Boston, MA 02215, United States

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## ABSTRACT

This study examined the relationship between mothers' child care subsidy use and their earnings and labor force attachment. Using Wisconsin administrative data, this study examined 48 months of subsidy use for mothers who became eligible for child care subsidies between March 2000 and February 2001 ( $n = 8984$ ). Comparing subsidy-eligible mothers who received subsidies and those who were eligible but did not, we estimated the likelihood of experiencing an increase (or decrease) in earnings and the likelihood of experiencing an increase (or decrease) in the number of quarters employed. We used multinomial regression models to estimate each economic outcome separately and used logistic regression models to estimate both of the outcomes together. In both separate and joint analyses of earnings and quarters employed, we found that subsidy receipt was associated with an increase in the probability of an increase in earnings and/or number of quarters employed and a decrease in the probability of a decrease in quarters employed. However, in general, these associations were only significant when mothers received a subsidy for 12 months or more. These findings suggest the importance of identifying potential barriers to subsidy use, as stable receipt of subsidies may contribute to parents' economic well-being.

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## 1. Introduction

As a key work support for low-income families, child care subsidies have been expanded substantially since welfare reform. In 2013, the federal and state governments spent \$ 8.6 billion on subsidies (mainly through the Child Care and Development Fund [CCDF]; U.S Department of Health and Human Services, 2014a) to serve an average of about 875,000 low-income working mothers with young children per month (U.S Department of Health and Human Services, 2014b). By reducing the cost of child care, child care subsidies aim to promote employment among low-income mothers and help them become self-sufficient. Studies after welfare reform have generally found a positive relationship between subsidized child care and obtaining employment (Danziger, Ananat, & Browning, 2004; Lee et al., 2004; Tekin, 2005, 2007). However, although obtaining employment is the critical pathway to self-sufficiency, employment that is unstable or does not offer earnings growth does not necessarily guarantee self-sufficiency for low-income mothers.

In theory, child care subsidies can affect earnings growth by increasing work hours or job experience, which in turn could lead to a wage increase at one's current job or a move to a better-paying job. However, mothers have different preferences regarding work–family balance. Some mothers may reduce their work hours to spend more time with family in response to the increase in their disposable income due to subsidy receipt or decrease their labor supply over time as their increased experience leads to higher wages. Additionally, some mothers might

be strategic about how much they work in order to maintain eligibility for subsidies. Empirical evidence on the impact of child care subsidies on earnings, employment, and overall economic success among low-income mothers under the current work-required welfare policies is still limited.

This study used Wisconsin administrative data for mothers who applied and became eligible for child care subsidies between March 2000 and February 2001 and followed their history of subsidy receipt, employment, and earnings over the next 4 years. This rich administrative data source allowed for a number of improvements over previous research. First, this study examined child care subsidy receipt and the economic outcomes of low-income working mothers in a dataset that is more recent and reflective of the current policy environments and the current composition of child care subsidy users than has been used in much previous research. Second, to help allay concerns about endogeneity, it used a carefully constructed study sample consisting exclusively of families who applied and became eligible for subsidies, allowing for a comparison of outcomes between subsidy recipients and non-recipients that limits some concerns about selection bias, which is a typical concern in policy evaluations using secondary data. Finally, the study also examined the overall economic success of mothers by considering joint changes in earnings and labor force attachment (i.e., the number of quarters worked) over the course of the study.

## 2. Conceptual framework

Child care subsidies reduce work-related expenses and increase the net return from employment, which contribute to better employment

\* Corresponding author.

E-mail addresses: [yha@bu.edu](mailto:yha@bu.edu) (Y. Ha), [dpmiller@bu.edu](mailto:dpmiller@bu.edu) (D.P. Miller).

outcomes among low-income mothers (Blau, 2003). Evidence has generally confirmed a positive relationship between the receipt of child care subsidies and the probability of employment (Berger & Black, 1992; Danziger et al., 2004; Kimmel, 1995; Tekin, 2005, 2007). Economic theories, however, provide mixed predictions of the effects of subsidy receipt on earnings. Mothers with different preferences for work and family issues may respond differently in the labor market as their earnings change (Michalopoulos, Robins, & Garfinkel, 1992; Powell, 2002). For example, in some cases, child care subsidies might lead to increased disposable income, and some mothers might use that extra income as an opportunity to reduce their work hours and spend more time with their children (Lopoo, 2005). Other mothers might strategically combine earnings and other work support benefits to maximize their total income (Hofferth, 1999; Romich, 2006). Thus, if the value of subsidies they would lose from exceeding the income eligibility limit outweighs the money they would receive from earnings growth, these mothers might reduce their work hours as their earnings increase to maintain subsidy eligibility.

As a result, although potential availability of child care subsidies can generally increase the probability of obtaining employment, the actual increase in earnings depends on the mother's perceived needs and preferences regarding work, child care, and child care subsidies. Given the theoretical complexities in predicting mothers' earnings relative to subsidy receipt, it is not surprising that empirical evidence is in turn mixed. Some studies have shown positive relationships between subsidy receipt and earnings (e.g., Danziger et al., 2004; Ha, 2009). However other studies have suggested insignificant relationships between them (e.g., Berger & Black, 1992; Brooks, 2002).

Given individual preferences between work and family issues and various income-packaging strategies by mothers, conceptualizing the overall economic advancement of mothers who receive subsidies is a complex task. In general, stable employment with earnings growth would be an ideal economic outcome for mothers who receive subsidies. Thus, it is necessary to examine both employment and earnings growth jointly to see how child care subsidy receipt contributes to the overall economic outcomes of mothers. However, many low-income mothers work in low-wage jobs that do not offer substantial wage increases (Barnow et al., 1999). Moreover, when low-income workers receive raises or increases in the number of work hours, their increased earnings may be significantly offset by decreases in work support benefits (e.g., child care subsidies, Supplemental Nutrition Assistance Program benefits, and Earned Income Tax Credits; Romich, Simmelink, & Holt, 2007). If this is the case, increased earnings may not necessarily contribute to increases in their overall economic well-being (National Center for Children in Poverty, 2010). Thus, some mothers, particularly those who experience high effective marginal tax rates, can be economically better off if they stay employed but do not accept raises or work more hours. Similarly, mothers who value childrearing more than increased earnings may maximize their total benefits (i.e., combining both economic and psychological benefits) by merely maintaining rather than increasing employment (Hofferth, 1999).

Wisconsin's child care subsidy program covers a broad range of low-income working families with equal access to subsidies (i.e., no waiting list, no priority rules) and relatively generous benefits to those who receive subsidies. Previous research suggests that more generous state subsidy policies can lead to greater placement choice for child care and stability for families (Weber, Grobe, & Davis, 2014). In Wisconsin, all low-income working families that have incomes at or below 185% of the poverty line (\$3097 per month for family of three in 2015) can be eligible for subsidies. Once families become eligible, they can continue to receive subsidies until their income exceeds 200% of the poverty line. Wisconsin also provides a high maximum reimbursement rate (set at the 75th percentile of the 2012 local market value of care) to care providers and a relatively low copayment rate to families (no higher than 12% of family income). Therefore, the value of child care subsidies is higher than many other states; in March 2014, the average monthly

payment of child care subsidies was \$639 per child, compared to \$388 nationally, and about 45,300 children received subsidies (U.S. Department of Health and Human Services, 2014c; Wisconsin Department of Children and Families, n.d.). This relatively generous nature of the program might provide mothers with financial incentives to maintain their eligibility for child care subsidies, which might result in overrepresentation of mothers in our data who are employed but do not experience earnings growth that can exceed their income eligibility cutoff.

### 3. Literature review

#### 3.1. Child care subsidies and employment

The relationship between child care and women's labor supply has been examined over the past two decades, but most studies have focused on the costs of child care and subsequent work decisions (Baum, 2002; Connelly & Kimmel, 2003; Han & Waldfogel, 2001; Kimmel, 1998) or have estimated women's labor supply relative to the demand for child care and the quality of care available (Michalopoulos et al., 1992; Ribar, 1992, 1995). These studies found that in general the cost and the demand of child care were negatively related to mothers' labor supply, but the degree of increases in labor supply tended to be smaller than the amount of decreases in child care expenditures. Several studies have explored the relationship between various types of child care subsidies provided to low-income mothers and their work decisions and have found a positive relationship between the receipt of subsidies and the likelihood of employment (Ahn, 2012; Berger & Black, 1992; Kimmel, 1995; Meyers, Heintze, & Wolf, 2002). However, most of these studies used data from before welfare reform in 1996 (Berger & Black, 1992; Kimmel, 1995), broadly defined child care subsidies by including any help from employers, other parents, or other people (Ahn, 2012), or examined moderate income families who are not the major targets of CCDF policy (Michalopoulos, Lundquist, & Castells, 2010). Thus, these studies provide limited evidence on the effectiveness of CCDF child care subsidies in the current welfare policy environment.

Some studies examined the relationship between child care subsidies and employment-related outcomes after welfare reform (Brooks, 2002; Crawford, 2006; Danziger et al., 2004; Lee et al., 2004; Tekin, 2005, 2007; Zandoni & Weinberger, 2015). These studies generally found subsidy receipt to be positively related to the probability of gaining any type of employment, obtaining a full-time job, or maintaining employment over time. Another recent study that examined the impact of subsidies on barriers to work also found that subsidy receipt was likely to reduce child-care-related work disruptions, suggesting that subsidy receipt contributes to maintaining employment (Forry & Hofferth, 2011).

#### 3.2. Child care subsidies and earnings

Despite overall positive relationships between subsidy receipt and employment attainment and retention, findings on the relationship between subsidy receipt and earnings have been inconsistent (Brooks, 2002; Danziger et al., 2004; Ha, 2009; Michalopoulos et al., 2010). Brooks (2002) compared the median monthly earnings between mothers who received subsidies ( $n = 52$ ) and mothers who were on the waiting list ( $n = 50$ ) in Georgia and found insignificant differences in their earnings. Although Brooks' (2002) study utilized a comparison group (i.e., mothers on the waiting list), the study had a small sample size and did not control for other maternal characteristics that might have affected these differences. Thus, it is unclear whether the null finding was a result of limited statistical power or confounded effects of subsidy receipt and other characteristics of mothers. Michalopoulos et al. (2010) focused on moderate-income mothers in Illinois who were previously ineligible for subsidies due to high income and tested whether providing them with subsidies would increase their earnings and employment. The study found no significant effects on either earnings or employment, largely because most study participants were already

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