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REVIEWS OF RESEARCH
RESEARCH BRIEF

PARENT EMPLOYMENT AND THE USE OF CHILD CARE SUBSIDIES

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The Reviews of Research series synthesizes research on selected topics in child care and early education. For each topic, Reviews of Research provides an in-depth Literature Review and a summary Research Brief. Also, for each, a companion Table of Methods and Findings from the literature reviewed is available on the *Research Connections* web site: www.childcareresearch.org.

What We Know

Research on the relationship between receipt of child care subsidies and low-income women's labor force participation shows subsidy use to be associated with increased rates of employment and improved employment outcomes.

Subsidy use and employment are inherently intertwined—subsidies support employment, while employment and preparation for employment are conditions for subsidy eligibility. While studies to date document associations between subsidy use and a range of desirable employment outcomes, no published research has examined causal effects of subsidy use on employment. New studies presently underway are using experimental methodologies designed to document subsidies' effects.¹

Studies available so far look for the influence of subsidies in two ways, modeling hypothetical reductions in child care prices or by building models with data reflecting mothers' actual receipt of subsidies. The size of potential differences in employment outcomes between subsidized and unsubsidized mothers varies greatly among studies, which in part reflects studies' different assumptions and methodologies.

- ▶ While employment and subsidy use each influence the other, mothers who use subsidies appear more likely than other low-income mothers to:
 - work at a job
 - work more hours

- work standard schedules
- sustain employment
- earn more

Mothers using subsidies also appear more likely to return to work sooner after child birth.

- ▶ Receipt of subsidies appears to be more strongly associated with improved employment outcomes for some groups of low-income mothers than others:
 - Subsidies appear most likely to increase employment for the least educated women—those without high school degrees.
 - Receiving subsidies is more strongly associated with the probability of working standard schedules for TANF mothers than for non-TANF mothers.
 - Subsidies are associated with greater increases in employment for single than for married mothers.
- ▶ Women using subsidies are more likely to be employed in the retail and service sectors than in other sectors of the economy.
- ▶ Child care subsidies are one of several work supports associated with mothers' employment decisions. Other policies and benefits—such as tax credits, cash assistance, medical insurance, and food stamps—are also related.

INTRODUCTION

A growing body of research is starting to shed light on the ways child care subsidies are achieving one of their central goals—supporting employment for low-income parents. Second in the series *Reviews of Research on Child Care Subsidies*, this research brief summarizes the *Research Connections* literature review of the same title, *Parent Employment and the Use of Child Care Subsidies*, which examines recent research addressing the basic question:

- ▶ What parent employment outcomes are associated with the use of child care subsidies?²

That is, how do employment decisions and patterns for low-income parents with subsidies tend to differ from those of low-income parents without them? For which subgroups of these parents—such as, those with or without high school diplomas, with or without cash assistance histories—do child care subsidies appear to make more difference? What factors in addition to subsidies influence parents' employment decisions? While these questions are posed broadly in terms of “parents,” the research to date focuses on “mothers.”

WHAT ARE CHILD CARE SUBSIDIES?

Child care subsidies reduce child care costs for low-income families and have two main goals: support for parents' employment and support for children's development. The primary federal funding source for child care subsidies is the Child Care and Development Fund (CCDF).³ CCDF, including funds transferred by states from the Temporary Assistance for Needy Families (TANF) program to CCDF, is a significant source of federal support to improve the affordability, supply, and quality of child care in the United States. Through a block grant to states, territories, and tribes, CCDF assists low-income families, including families receiving or transitioning from TANF cash assistance, in obtaining child care so they can work, or at grantee option, attend training or education. States, territories, and tribes have wide discretion in defining employment and preparation for employment, as well as in setting income eligibility ceilings, family copayment levels, provider payment rates, and other policies. States, territories, and tribes can choose which families to prioritize and whether to serve all eligible families or establish waiting lists for subsidies.

CCDF was created along with the major restructuring of the nation's welfare/cash assistance program through the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996. CCDF consolidates four earlier federal programs and includes a combination of both federal and related state funds.⁴ Additional federal funding comes from the TANF program created by PRWORA; states may transfer up to 30 percent of their TANF block grants into CCDF or spend TANF directly on child care without limit. Some states also provide child care subsidy funds beyond those required through CCDF state matching and maintenance of effort requirements and those provided under TANF. Other federal and state programs, such as Head Start, 21st Century Community Learning Centers, and state prekindergarten programs, also assist low-income parents in caring for and educating their children, although they generally do not fall within the definition of "child care subsidy" in research reviewed here.

Within the broad group of low-income working families potentially eligible for CCDF subsidies, states serve three subgroups: families currently receiving cash assistance (TANF) and preparing for or beginning to work, families transitioning from TANF or with a recent TANF history, and low-income working families. At different points in time, the same family may be in all three subgroups.⁵

CURRENT POLICY LANDSCAPE

There has been a significant increase in federal and state funding for child care in the decade since enactment of PRWORA. For both federal fiscal years (FFY) 2002 and 2003, \$4.8 billion in CCDF was available through block grant funding—more than double the \$2.2 billion available in 1996. Combined with state matching, maintenance of effort, Social Services Block Grant, and TANF dollars transferred to CCDF or spent directly by states on child care services, an estimated \$11.8 billion in FFY 2002 and \$11.5 billion in FFY 2003 were available for child care. In 2002 and 2003, an average of 2.4 million children was served each month from these combined federal and state sources.⁶ The Deficit Reduction Act of 2005 extended the CCDF mandatory funding stream through FFY 2010, increasing child care funding available through state match by \$200 million per year, or a total of \$1 billion over 5 years.

According to a recent survey conducted by the Government Accountability Office (GAO), in states that do not serve all eligible subsidy applicants, TANF families participating in required work activities and families transitioning from TANF typically receive priority over other low-income working families. (U.S. Government Accountability Office, 2005.) However, many states serve TANF families and families transitioning from TANF directly through TANF funds rather than through the CCDF program.

EMERGING THEMES

The following section highlights key findings from the recent literature on the relationship between subsidies and employment. While the research discussed below focuses on how child care subsidies may influence parental employment, it is important to note that we do not intend to imply that the relationship between child care subsidies and employment is causal or unidirectional. Child care and employment decisions appear to be inherently intertwined.⁷ It is reasonable to assume that in most cases, employment and child care decisions are made simultaneously, with families optimizing both through an interactive process. Moreover, for parents who are aware of and eligible for subsidies, obtaining and retaining subsidies is also woven into the process. Additionally, it is important to note that this paper presents a preliminary picture of patterns beginning to emerge in the focused subset of the literature reviewed.⁸

Employment Characteristics

Among low-income mothers, the studies reviewed suggest that:

- ▶ Child care subsidies are associated with an increased percentage of months worked in a year and increased earnings (Danziger et al., 2003).
- ▶ Subsidy use is strongly correlated with employment retention for TANF recipients and leavers (Lee et al., 2004).
- ▶ Reducing child care costs increases the probability that mothers will return to work sooner after childbirth (Baum, 2002).
- ▶ Those receiving subsidies are more likely to work standard (daytime, weekday) hours (Tekin, 2004b).
- ▶ Women receiving subsidies are more likely to be employed in retail and service industries (Okuyama & Weber, 2001; Jefferys & Davis, 2004).

Individual and Family Characteristics

Several studies reviewed also suggest that subsidies are likely to have different impacts on employment for different groups of people. Specifically:

- ▶ Reducing child care expenses appears most likely to increase employment for mothers with the least education—those without high school degrees (Anderson & Levine, 1999).
- ▶ For TANF mothers, receiving subsidies is more strongly associated with the probability of working standard schedules than for non-TANF mothers (Tekin 2004b).
- ▶ Reducing child care costs is associated with greater increases in employment for single than married mothers (Han & Waldfogel, 2001; Houser & Dickert-Conlin, 1998).

Characteristics of Subsidy Program Delivery

Two studies found that providing enhancements to subsidy programs had an effect on the type of child care used but not on employment or the amount of child care used. Specifically:

- ▶ Practices designed to inform parents about regulated and subsidized care options appeared to result in more use of formal and regulated care (Crosby et al., 2001; Gennetian et al., 2001).

Effects of Other Policies and Benefits on Employment

Subsidy, though important, is only one factor in the child care and employment choices parents make. In addition to child care policies, a variety of other policies—such as those related to taxes, health insurance, food stamps, family leave—also influence labor force decisions. One study, which also accounted for other policies in its model found that:

- ▶ Both child care subsidies and improvements to the Earned Income Tax Credit had small effects on labor market participation (Houser & Dickert-Conlin, 1998).

CRITERIA FOR SELECTION OF STUDIES FOR REVIEW

In preparing this literature review, the authors scanned research from a wide range of sources—academic institutions, research organizations, and state agencies—and considered both peer-reviewed and other reports—published and about to be published. Several criteria of equal importance guided the selection process. An initial selection criterion was study completion since the 1996 passage of PRWORA and establishment of CCDF. Research published since this watershed in child care policy has the highest value to policymakers and researchers alike.⁹ A related criterion was a report's policy relevance. Additionally, the selected works rely on sound methodologies with analyses that support their conclusions.

DESCRIPTION OF STUDIES

Until recent years, when child care subsidies became more widely available, and thus could be studied directly, most research inferred the likely impacts of subsidies on parents' employment outcomes. Recognizing that subsidies reduce the price of care for families that receive them, these early studies use empirical models to estimate employment decisions (such as, choosing to work, the number of hours worked, work schedules, months between the birth of a child and a mother's decision to return to work) at various child care prices. The studies often rely on large data sets that include information about family characteristics and labor force decisions that are sometimes supplemented with additional information, such as state and federal tax rules and program benefit levels.

A separate and smaller body of studies, which also relies on large data sets, directly examines associations between subsidy receipt and employment. These data sets include information about whether or not a family received subsidies. One such large data set available for analysis is the National Survey of America's Families (NSAF). Other researchers have reanalyzed data collected to evaluate welfare reform experiments

to see if child care subsidies had any effects on labor force decisions for families who participated in these studies. Still other researchers have analyzed administrative data on families using subsidies, generated by state agencies as they operate subsidy systems.

The size of potential differences in employment outcomes between subsidized and unsubsidized mothers varies greatly among studies, which in part reflects the studies' different assumptions and methodologies.

METHODOLOGICAL ISSUES

Several methodological issues in the research on child care subsidies and women's employment became apparent from the review of the literature.

Simulated Versus Actual Subsidy Data

One limitation in this literature is that a substantial minority of all studies reviewed here lack data on actual child care subsidy use and instead utilize simulated subsidy data. Research that uses survey data on subsidy receipt or subsidy administrative data provides a more realistic basis for characterizing subsidies and their potential impact. However, when using administrative data researchers need to account for possible sample selection bias.

Sample Selection Bias Issues

Because the findings summarized here are correlational and not causal, it becomes particularly important to account for possible sample selection bias when studying the relation between employment and subsidy. As some authors note (for example, Danziger et al., 2003), there may be an unknown third factor which drives both employment and subsidy use, like the motivation to work in a job. The nonexperimental studies reviewed here, however, are unable to account for selection bias in the definitive way that random assignment studies could.

Strengths and Weaknesses of National Surveys

A key strength of national surveys is their representative samples. However, a frequent drawback in papers using national survey data is the substantial time lag between data collection and the publication of research, particularly for secondary data analyses.

This time lag is problematic for research on child care subsidies, since major federal policy changes occurred in 1996 with the implementation of PRWORA changing child care subsidy policies, and expanding subsidy use. Relevance to the TANF policy environment of research based on pre-TANF data varies.

Causality

As noted throughout, we do not intend to suggest that there is a simple causal relationship between subsidy use and employment. Although it is easy inadvertently to describe this relationship in causal terms, evidence from the nonexperimental studies reviewed here does not warrant that.

ISSUES FOR FURTHER STUDY

Subsidy Data

The trend toward studies that measure likely impacts of the actual receipt of subsidies on employment—rather than simulate subsidies' potential impacts through models of reduced child care prices—needs to continue. Clearly, there is need for more surveys to include carefully crafted questions on subsidy use. Additional studies are also needed that use child care administrative data in creative combination with survey data, as well as with other administrative data. A new study from Chapin Hall, described in the box, is undertaking such an analysis.

Experimental Studies

Experimental studies that can solidly establish causal relationships between subsidies and employment outcomes are also needed, despite the challenges in designing experiments which make subsidies available to one group but not another. Note the two experimental studies, being undertaken in Illinois and Washington, described in the box below.

Studies to Watch For

(When completed, these will be available on *Research Connections*.)

Three studies supported by the Child Care Bureau promise to deepen understanding of the effects of subsidies on employment:

- ▶ *Employment and TANF Outcomes for Low-Income Families Receiving Child Care Subsidies in Illinois, Maryland and Texas*

Chapin Hall Center for Children, University of Chicago.

This study will examine employment outcomes related to subsidy in three states by linking administrative data on child care subsidy, TANF, and Unemployment Insurance systems to individual-level Census data from the American Community Survey.

- ▶ *Illinois Child Care Assistance Study*

Evaluation of Child Care Subsidy Strategies Project, Abt Associates.

This study will randomly assign low-income families to either a subsidized treatment group or non-subsidized control group. The study will then follow participating families for two years to observe the differences subsidies make in terms of the families' employment, child care satisfaction, and child care stability.

- ▶ *Washington Copayment Study*

Evaluation of Child Care Subsidy Strategies Project, Abt Associates.

This study will investigate the effects of different copayment schedules (for families receiving child care subsidies) on parental employment, child care choices and patterns of use, and the use of other public benefits.

Impacts on Other Family Members

The literature reviewed focuses on the relationship between subsidies and mothers' employment. However, the experiences of other family members in relation to caregiving, subsidies and employment also warrant exploration as do differences among subgroups.

Comparable Policy Contexts

Future research needs to be as explicit as possible about the policy context under study and ways it may or may not differ from policy contexts in other times and places. Authors need to be clear in describing the policy context under which their data were collected.

Quality and Availability Issues

Relationships between the quality of available care and parent employment and other family outcomes also warrant further attention. Parents seek quality in the relationships between their children and child care providers, as well as affordable care.¹⁰ Further work is needed to develop more refined ways to measure quality of care across geographic study areas.

Impacts of Other Work Supports

More studies are also needed which look at the impacts on employment of child care subsidies along with the impacts of other work supports, such as medical assistance, food stamps and EITC. Additionally, research needs to look for influences of subsidies and other work supports on family income and self sufficiency.

CONCLUSION

Current research on subsidy use and employment indicates that while employment and subsidy use each influence the other, increases in child care subsidies are associated with increases and improvements in mothers' employment.

As researchers continue to build evidence on the relationship between subsidy receipt and employment outcomes, they need to take creative advantage of administrative data on child care and other work supports, as well as strengthened survey data on child care. They also need to undertake more experimental studies to solidify understanding of subsidy effects suggested by nonexperimental studies. Random assignment or not, all future research needs to reflect explicit understanding of the policy context of the subsidies examined. While research to date has focused almost exclusively on subsidies' relation to mothers' employment, future research needs also to examine ways subsidies influence the employment of other family members. Future research also needs to study the impact of subsidies in a broader context—looking more deeply into the ways that parents weigh child care subsidies, other public benefits, and the availability of quality care in their communities when making their employment and child care decisions.

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ENDNOTES

1. For explanations of experimental and other research designs, see Research Methods in the Understanding Research section of the Child Care & Early Education *Research Connections* web site, www.childcareresearch.org/servlet/DiscoverResourceController?displayPage=methods.jsp.
2. The first literature review in this series is Schaefer, S. A., Kreader, J. L., & Collins, A. M. (2005). *Predictors of child care subsidy use*. New York: Child Care & Early Education Research Connections, <http://www.childcareresearch.org/location/ccrca7459>.
3. The Child Care and Development Fund was created by 1996 and 1997 amendments to the Child Care and Development Block Grant. The name "Child Care and Development Fund" does not appear in legislation and is the name adopted by the Department of Health and Human Services to refer to the consolidated funds.
4. Aid to Families with Dependent Children Child Care, Transitional Child Care, and At-Risk Child Care—previously authorized under Title IV-A of the Social Security Act—were consolidated with the Child Care and Development Block Grant.
5. A current TANF family may become a former TANF family, and a family with no recent TANF history may begin to receive cash assistance from the TANF program.
6. Child Care and Development Fund (CCDF) Report to Congress for FY 2002 and FY 2003, forthcoming.
7. The econometric studies cited here generally assume parents make a joint decision about child care and employment; thus, the studies structure their models as a joint decision. Connelly (1992) authored the original paper in this literature which specified the model of the impact of child care costs on women's labor force participation. The theoretically-based assumption of a joint child care and employment decision, sometimes made implicitly, is based on economic theory, as articulated in Connelly (1992). See Anderson and Levine (1999) for a review of earlier econometric literature which follows from Connelly's model.
8. Given the types of studies reviewed (nonexperimental in most cases, some with simulated subsidy data) and the small number of studies for each finding, the resulting picture remains preliminary. The two experimental studies reviewed here (Gennetian et al., 2001; Crosby et al., 2001) are welfare policy experiments for which the child care subsidy portion of the experiment dealt with provision of enhanced services around child care subsidies, such as resource and referral services. As such, these studies, while useful, do not directly address the impact of the presence or absence of subsidies, the key issue in this paper.
9. Some studies completed after (and informed by) TANF analyzed data that had been collected in the course of studies of pre-TANF welfare reform initiatives.
10. For a discussion of aspects of quality child care see Shonkoff, J. P. & Phillips, D. A. (2000). *From neurons to neighborhoods: The science of early childhood development*. Washington, D.C. National Academy Press, 314-320.