



Child Care Assistance: A Program That Works

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In his Inaugural Address, President Obama said,

The question we ask today is not whether our government is too big or too small, but whether it works—whether it helps families find jobs at a decent wage, care they can afford, a retirement that is dignified.

As the economic recovery package moves through Congress, it is critical that it include a substantial increase in the federal child care assistance program, the Child Care and Development Block Grant (CCDBG). Child care is a program that works and one that meets the above criteria for investment, as laid out by the new President.

- *Child care assistance helps families with very low-incomes stay in the workforce.* Research shows that child care assistance makes a significant difference in the economic health and security of families. It helps families sustain their participation in the workforce, reduce instability in care arrangements that can impact work, and move out of poverty.
- *Child care contributes to the economy by creating and sustaining jobs.* Parents benefit when they have access to reliable, affordable quality child care that allows them to work to support their families. Child care is a key economic sector creating jobs and revenue for communities.
- *And, child care supports the healthy development of young children.* Decades of research show that children benefit from access to high-quality child care and early education experiences, improving the odds in particular for low-income children, and helping build solid foundations for future learning and success in life. Making investments in young children today, yields significant returns in future years.

President Obama continued, “Where the answer is yes, we intend to move forward.” After eight years of indifference towards the needs of low-income working families, moving forward with a \$3 billion increase in funding for CCDBG in the economic recovery package would provide significant resources to support an effective program.

More families are living in households with low earnings and need affordable child care.

Between 2000 and 2007, the number of children from birth to age 13 living in low-income households (those earning less than 200 percent of the federal poverty level) grew by nearly 1.2 million children, or 5 percent.¹ Most low-income families (84 percent) have at least one working family member,² and 75 percent of single, low-income mothers who head households are working.³ Safe and reliable child care helps these parents go to work and retain the jobs they need to support their families.⁴

Child care fees are a major piece of family budgets and in some areas may exceed housing costs and other basic expenses. Child care cost data show that the price of full-time center care for young children has increased at nearly twice the rate of inflation.⁵ On average, child care expenses comprise 29 percent of a poor, working mother's family income, compared to 15 percent for a mother who earns between 100 and 200 percent of poverty and 6 percent for mothers earning above 200 percent of poverty.⁶ One study found that 40 percent of poor, single, working mothers who paid for child care in 2001 paid at least half of their cash income for child care; an additional 25 percent of these mothers paid 40 to 50 percent of their cash income for child care.⁷

State child care assistance programs help low-income families meet the high costs of care in order to work, but flat funding has reduced the number of families these programs reach.

Approximately 2.3 million children from birth to age 13 received child care assistance from all federal sources (including CCDBG and TANF) in 2006.⁸ When low-income families receive help meeting child care costs they are more likely to enter and remain in the workforce, and may work more hours. For example, a study of a representative sample of low-income single mothers found that receipt of child care subsidies increased the probability of employment by 15 percent.⁹

Although child care assistance has been proven to work for children and their parents, it is limited in its reach. Only one in seven—or 14 percent—of federally-eligible children received assistance in 2000.¹⁰ Since that time, the number of children receiving child care assistance from all sources (including CCDBG and TANF) has fallen by approximately 150,000. In 2007, CCDBG served the smallest number of children this decade.¹¹ CCDBG has been essentially flat funded since 2002 and TANF funds, which had been a substantial source of funding for child care assistance, have been moved from child care to other sources.

In other words, the number of children receiving help has *fallen* while the number of children living in low-income families potentially eligible for assistance has *grown*. The result is likely a larger share of unserved children today, as compared to 2000.¹²

Child care helps poor families work, provides jobs, and stimulates the economy.

Child care assistance also helps families economically. One researcher finds that a child care subsidy generates more additional hours worked per dollar of government spending than a comparable wage subsidy.¹³ CCDBG serves families with very low incomes. Nearly half (49%) of all families receiving CCDBG-funded assistance have incomes below the federal poverty level, even though most are working.¹⁴ A \$3 billion investment in CCDBG would provide child care for approximately 483,000 children in 281,000 families.¹⁵ Based on the share of poor families served in CCDBG, this increase in

funding could provide an income support to more than 137,000 poor families—moving them on a path from poverty towards prosperity.

A national study showed that child care is a key part of the economy across the country, and is responsible for generating nearly \$580 billion in labor income and \$69 billion in tax revenue and providing more than 15 million jobs.¹⁶ An increase of \$3 billion in CCDBG funding would create paid work for an estimated 189,600 caregivers.¹⁷ This initial job creation will have an even larger effect on the economy when considering the multiplier effect of this investment.

An analysis of 50 state child care data found that on average across the states, the multiplier effect of the child care sector is as strong or stronger compared to other sectors including retail, tourism, hospitals, job training, and elementary and secondary schools. Moreover, the economic multiplier effect for *quality* child care is even greater—policies that promote quality child care such as better child: provider ratios or higher provider reimbursement rates yield higher output multipliers.¹⁸

The child care industry itself averages an output multiplier of 1.91. Meaning, that for every dollar spent directly on child care, nearly two additional dollars are generated in sales in the overall economy. A \$3 billion increase in child care assistance could result in an impact on the economy equal to as much as \$5 billion.¹⁹

Finally, child care effectively delivers money to states.

Child care is not only a program that works for children and families; CCDBG also works for states and has effectively delivered funds to states to spend within authorized time periods. Each year, states obligate and liquidate funds according to the rules of the program. At the end of FY 2006, only one state left \$2.9 million in federal funds unobligated (less than 1 percent of all available funds). These funds were reallocated to states the following year, as required by law.²⁰ The CCDBG law allows states several years to expend funds: Discretionary funds are expended over a three year period and Mandatory funds have no deadline for liquidation. States have met these rules and in recent years, to maintain expenditures with flat funding, states have spent a greater share of their current year funds each fiscal year and have carried fewer funds forward into future years.²¹

A substantial investment in child care assistance is needed now.

Recent news reports indicate that parents are pulling children out of care because they cannot afford the high costs or because they have lost jobs. Child care providers are having difficulty making ends meet with fewer children in care. It is clear that helping families afford child care and ensuring that providers can keep their doors open is a critical and sound investment, one that works, and one that can help shore up the economy, and move the country, including our most vulnerable families, forward toward recovery.

¹ Center on Budget and Policy Priorities analysis of March 2001 and 2008 Current Population Survey data.

² U.S. Census Bureau, Current Population Survey, 2008 Annual Social and Economic Supplement, *Families with Related Children Under 18 by Number of Working Family Members and Family Structure: 2007*, http://pubdb3.census.gov/macro/032008/pov/new07_200_01.htm.

³ *Ibid.*

⁴ Hannah Matthews, *Child Care Assistance Helps Families Work: A Review of the Effects of Subsidy Receipt on Employment*, Center for Law and Social Policy, 2006, http://www.clasp.org/publications/ccassistance_employment.pdf.

⁵ The National Association of Child Care Resource and Referral Agencies, *Parents and the High Price of Child Care: 2008 Update*, 2008.

⁶ U.S. Census Bureau, Survey of Income and Program Participation (SIPP) 2005 Data, *Who's Minding the Kids? Child Care Arrangements: Spring 2005*, <http://www.census.gov/population/www/socdemo/childcare.html>.

⁷ Richard Wertheimer, *Poor Families in 2001: Parents Working Less and Children Continue to Lag Behind*, 2003.

⁸ In FY 2006, the latest year data are available, approximately 1.8 million children received CCDBG-funded child care assistance (including TANF transfers to CCDBG). CLASP estimates that an additional 500,000 children received child care assistance through TANF direct and SSBG funds. Given that preliminary data show fewer children receiving CCDBG assistance in FY 2007, the number of children served through all sources may be even lower in FY 2007.

⁹ Erdal Tekin, *Child Care Subsidy Receipt, Employment and Child Care Choices of Single Mothers*, 2004.

¹⁰ Jennifer Mezey, Mark Greenberg, and Rachel Schumacher, *The Vast Majority of Federally-Eligible Children Did Not Receive Child Care Assistance in FY 2000*, Center for Law and Social Policy, 2002, www.clasp.org/publications/1in7full.pdf.

¹¹ CLASP analysis of U.S. Department of Health and Human Services, Child Care Bureau, *FFY 2000-2007 CCDF Data Tables*, http://www.acf.hhs.gov/programs/ccb/data/ccdf_data/07acf800_preliminary/list.htm.

¹² The precise number of children eligible for child care assistance under federal law is unknown. Under CCDBG, states may provide child care assistance to families with incomes under 85 percent of State Median Income (SMI). While the value of SMI varies across the states, we use the number of low-income families with children under age 14 as a proxy to estimate the possible pool of families eligible for assistance.

¹³ David Blau, "Child Care Subsidy Programs," in Moffitt, Robert A., editor *Means-Tested Transfer Programs in the United States*, p. 472.

¹⁴ Child Care Bureau, *Child Care and Development Fund Report to Congress for FY 2004 and FY 2005*, 2008, <http://www.acf.hhs.gov/programs/ccb/ccdf/rtc/rtc2004/intro.htm>.

¹⁵ CLASP calculations based on 2006 expenditure and participation data (the latest year data are available).

¹⁶ The National Child Care Association, *The National Economic Impacts of the Child Care Sector*, 2002. See also regional studies on the economic impact of the child care sector at <http://www.earlychildhoodfinance.org/handouts/StudyMatrix.doc>.

¹⁷ CLASP calculations based on 2006 participation data (the latest year data are available).

¹⁸ Zhilin Liu, Rosaria Ribeiro and Mildred Warner, *Child Care Multipliers: Analysis from Fifty States, Linking Economic Development and Child Care*, Cornell University, 2004, <http://government.cce.cornell.edu/doc/pdf/50StatesBrochure.pdf>.

¹⁹ To calculate the multiplier effect, we subtract funds spent on training and technical assistance and apply the multiplier to 90 percent of the funds allocated to states, tribes, and territories, which excludes funds spent on administration and non-direct services.

²⁰ Child Care Bureau, *FY 2006 CCDF State Expenditures as of September 30, 2006 (Spending from All Appropriation Years): Overview*, <http://www.acf.hhs.gov/programs/ccb/data/expenditures/06acf696/overview.htm>. FY 2006 is the latest year expenditure data are available.

²¹ Hannah Matthews and Danielle Ewen, *Child Care Assistance in 2006: Insufficient Investments*, Center for Law and Social Policy, 2008, http://www.clasp.org/publications/childcareassistance_2006.pdf.