



Do child care subsidies influence single mothers' decision to invest in human capital?

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ABSTRACT

A child care subsidy is one of the most effective policy instruments to facilitate low-income individuals' transition from welfare to work. Although previous studies consistently find that subsidy receipt is associated with increased employment among single mothers, there is currently no evidence on the influence of these benefits on the decision to invest in human capital. Using data from the Kindergarten cohort of the Early Childhood Longitudinal Study, this paper examines the impact of child care subsidy receipt on the likelihood of engaging in education and job training activities. We identify the impact of subsidy receipt by exploiting plausibly exogenous geographic variation in the distance that parents must travel from home in order to reach the nearest social service agency that administers the subsidy application process. Results suggest that child care subsidies encourage single mothers to engage in human capital investment. In particular, our instrumental variables estimates imply that subsidy receipt increases the likelihood that a single mother enrolls in courses at a school or university by 13 percentage points and participates in a job training program by 8 percentage points.

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1. Introduction

Child care expenses constitute a significant item in the budget of low-income families. In 2009, the average cost of full-time center care for an infant ranged from approximately \$4550 in Mississippi to more than \$18,750 in Massachusetts, exceeding the average annual tuition for a four-year public college in 40 states (National Association for Child Care Resource & Referral Agencies [NACCRRA] (2010)).¹ National data indicate that child care costs comprise over one-quarter of poor families' income (Smith, 2000), greatly exceeding the federal recommendation that

families spend no more than 10% of their income on child care (USDHHS, 2009). Data also show that these costs are on the rise. The cost of child care since 2000 has increased twice as fast as the median income of families with children. In fact, the average increase for a four-year-old child in center care exceeds the rate of inflation in all states (NACCRRA, 2010).

The high cost of child care poses a serious burden on the prospects for sustained employment and economic self-sufficiency particularly among low-income families. This burden became more severe with the passage of welfare reform in 1996, which shifted the focus of the social safety net from providing disadvantaged families with open-ended cash assistance to facilitating their transition from welfare to work. In order to expedite this transition, the new law consolidated the previously fragmented child care subsidy system into a single block grant, the Child Care and Development Fund (CCDF), and substantially increased

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¹ See http://www.naccrra.org/docs/Cost_Report_073010-final.pdf.

funding for child care assistance.² Consistent with the explicit goal of welfare reform to increase employment and reduce welfare caseloads, CCDF funds are now targeted primarily at low-income families participating in a state-defined work activity.³ Since most child care subsidy expenditures are made so that a parent may work, a child care subsidy increases the net return from employment by reducing this important work-related expense. Therefore, child care subsidies have long been recognized as an important policy tool to encourage employment among women with young children. Accordingly, researchers have dedicated substantial attention to the potential employment impact of these subsidies (e.g., Berger & Black, 1992; Blau & Hagy, 1998; Gelbach, 2002; Herbst, 2008; Tekin, 2005, 2007a, 2007b).⁴ Findings from these studies consistently show that child care subsidies increase employment and reduce welfare use among low-skilled women with children.

Given the “work first” philosophy of welfare reform and the CCDF, the literature’s focus on employment is not surprising. However, the law clearly allows parents to use child care subsidies while participating in a range of other work-related activities—including job training and education—as long as they meet the other eligibility criteria. Indeed, recent data show that a non-trivial fraction of subsidy-eligible parents engage in these activities. For example, using nationally representative data from the National Survey of America’s Families (NSAF), Herbst (2008) finds that approximately 14% of eligible single mothers participate in job training programs and another 17% enroll in courses at the high school or college level. Schexnayder, Schroeder, Faliski, and McCoy (1999) provide direct evidence for Texas, finding that although most children receive subsidized care so that parents can work (62%), another 31% of children receive benefits to allow parents to attend job training or educational programs.

Despite the fact that child care subsidies are available to low-income parents engaged in job training and education, very little attention has been paid to studying these human capital outcomes. To our knowledge, the only available evidence comes from Blau and Tekin (2007), who examine the impact of child care subsidy receipt on employment, school attendance, unemployment, and welfare participation among single mothers using data from the 1999 NSAF. The authors find that subsidy receipt has no statistically significant effect on the decision to attend school. Currently, no evidence exists on the relationship between subsidy receipt and participation in job training.

In this paper, we attempt to fill this gap by analyzing the impact of child care subsidy receipt on single mothers’ decision to participate in education and job training pro-

grams using data from the Kindergarten cohort of the Early Childhood Longitudinal Study (ECLS-K). Our investigation is motivated by several factors. First, as described above, there is almost no evidence on the role played by subsidy policy in encouraging parents to attend school and engage in job training activities. Second, we argue that encouraging parents to participate in activities like schooling and job training is critical to the success of welfare reform. Among the intended goals of welfare reform is to “end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage.”⁵ Clearly, the desirable outcome from the government’s perspective is to enable parents to earn enough to meet their basic needs without public assistance of any kind, and the law recognizes that this goal cannot be accomplished through employment alone. Improving skills by investing human capital through activities like education and job training may be necessary to help low-income parents access better jobs. Therefore, it is important to provide insights into whether child care subsidies encourage investments in school and job training activities among recipient parents.

2. Data

Our data are drawn from the Kindergarten Cohort of the Early Childhood Longitudinal Study (ECLS-K).⁶ The ECLS-K is a nationally representative survey of approximately 21,000 children who entered kindergarten in the fall of 1998. Children in the sample are followed through the end of eighth grade, with parent and child interviews conducted in the fall and spring of kindergarten (1998 and 1999) and the spring of first (2000), third (2002), fifth (2004), and eighth (2007) grade. Over 20 children per school from over 1200 public and private schools are included in the sample.

In this study, we focus on the fall of kindergarten wave of data collection, in which parents were asked about contemporaneous education and job training activities as well as whether the focal children received subsidized care in the year before kindergarten entry. Our analysis sample retains children living with an unmarried biological mothers or female guardian (related or unrelated) at the start

² See Herbst and Tekin (2010a, 2010b) for detailed descriptions of the CCDF.

³ See SEC. 658P(3) of CCDF law at <http://www.acf.hhs.gov/programs/ccbf/law/ccdbgact/ccdbgact.pdf>.

⁴ Another source of evidence on the effect of child care subsidies comes from studies of the impact of the price of child care on maternal employment (e.g., Anderson & Levine, 2000; Blau & Hagy, 1998; Herbst, 2010; Kimmel, 1998; Tekin, 2007b). The consensus from these studies is that the price of child care has a negative impact on the employment of mothers.

⁵ Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Public Law 104-193, August 22, 1996.

⁶ The ECLS-K is sponsored by the U.S. Department of Education. For more information, see the ECLS-K website at <http://nces.ed.gov/ecls/childcare.asp>. The ECLS-K used a multistage probability sample design to select the sample of children attending kindergarten in 1998. The primary sampling units (PSUs) were geographic areas consisting of counties or groups of counties. The second-stage consisted of public and private schools within sampled PSUs. The final stage units were students within schools. The school frame was refreshed in the spring of 1998 to include newly opened schools that were not included in the original sample. Once the sample children were identified, parent contact information was obtained from the school, which was used to locate parents and seek consent for the child assessments and parent interviews. Completion rates (or response rates that are conditioned on earlier stages of data collection) for the fall of kindergarten interviews were high: 89.9% of child assessments were completed, 85.3% of parent interviews were completed, and over 90% of the teacher interviews were completed.

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