Child Care Subsidy Policies:
Contributions and Challenges, In the United States and China

Abstract
This paper discusses the strengths and weaknesses of child care subsidy policies in an anti-poverty agenda. Child care subsidy policies are designed to provide work-support and benefit child development among low income families in the United States. However, low coverage rate, fragmentary funding and administrative structures, deficiencies in quality improvement, and unequal child care supports across states limit the contribution of child care subsidy policies. This paper also discusses the contributions and limitations of current Chinese child care subsidy policies. Child care subsidy policy unequally benefits employees working for government agencies and state owned enterprises. An integrative administrative and finance structure, more supervision in quality improvement, as well as a universal benefit program will benefit women and children’s development in China. Discussion on the United States’ child care focuses on subsidy to school aged (5 to 18 years old) children. Discussion on the China’s child care includes children 18 years old and younger.

Key Words
Child Care Subsidy, United States, China

Introduction
Poverty is a primary denominator underlying many social problems. Living in poverty means a lack of opportunities for full participation in social, economic, and political activities. For low-income workers, it means material hardship as well as a deficiency of long term development opportunities. Children living in low-income families may have insufficient educational investment, which limits their opportunities for future development. More serious, poverty is associated with an increased likelihood of child abuse and neglect. Child care subsidy
policies provide financial support to low income families. Through sharing the cost of child care, this intervention strategy may help parents choose stable child care, which benefits child development and helps parents better participate in employment. The provision of child care subsidies is both an intervention and a preventive strategy in a poverty reduction agenda.

Child care subsidy policies play an important role in poverty alleviation, and are evaluated with empirical data in the United States. With an acknowledgment of the differences in their social, economic, political, and cultural backgrounds, an evaluation of the United States’ (U.S.) child care subsidy policies may contribute to the on-going discussions on anti-poverty policies for low-income families in developing countries such as China. This paper has three sections. The first section gives an overview of the contemporary structure of child care subsidy policies in the U.S. This section also addresses the limitations of the policies and their impacts on low income families. The second section introduces the structure of child care policies in China, analyzes the limitations of China’s current child care policies, and explores possible resolutions. The third section makes a summary and proposes an agenda for future research. Discussion of the child care in the U.S. focuses on school aged (5 to 18 years old) children. Discussion on the child care in China includes children 18 years old and younger.

In the United States: Welfare, Employment, and Child Care Subsidy Policies

U.S. Welfare Regime

In general, the U.S. welfare regime is defined as liberal welfare regime (Esping-Andersen, 1990). The prominent characters of the liberal welfare regime are liberal politics, capitalist economics and residualist social policies (Goodin, Headey, Muffels, & Driven, 1999). When the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) replaced Aid to Families with Dependent Child (AFDC) with Temporary Assistance for Needy Families (TANF) in 1996, the U.S. welfare policies began to enforce more stringent work requirements for welfare recipients. Recently, there has been a gradual decline of cash transfers and an expansion of in-kind transfers such as Medicaid, food stamps, housing, and child care (Blank, 1997; Iceland, 2006; Moffitt, 2003). The policies more specifically address the needs of populations such as the disabled, the elderly, and low-income working families. Hacker (2004) describes the U.S.
welfare system as a “Band-­patch” welfare system, because it lacks an integrated welfare framework.

U.S. anti-poverty policies include means-tested cash transfer (monetary resources) programs such as TANF; in-kind transfer programs, such as child care subsidies, Food Stamps, Medicaid/Medicare, and State Child Health Insurance Program (SCHIP); and tax redistribution such as Earned Income Tax Credit (EITC). Child care subsidies are an in-kind transfer programs. The promote employment by sharing the cost of child care. They are designed to benefit children from low income families by making quality child care more accessible.

**Employment and Child Care Subsidy Policy Programs**

For low-income families, having a stable job is crucial for long-term sustainment. For working families, especially those in which the mother is employed, child care is an unavoidable concern. It enhances children’s learning activities and prevents children from hurt and delinquent behaviors due to a lack of supervision. Child care subsidy policies, an in-kind welfare benefit, are a major component of U.S. anti-poverty policies. By partly sharing the cost of child care and intervening in the child care market, child care subsidy policies can help parents more actively participate in employment.

In the U.S., Child care subsidies are mostly financed by the federal government, but most of the administration is performed by state and local governments. Also, most services are provided by private-sector providers (Helburn & Bergmann, 2002). State governments have substantial discretion in formulating child care subsidy policies and vary on important policy characteristics such as income limits, eligibility time limits, priority targets, subsidy application processes, parent co-payments, funded quality enhancement initiatives, and provider reimbursement rates.

There are four major federal funding sources for out-of-school time child care subsidies (Blau & Currie, 2006; Little, 2007): Child Care and Development Fund (CCDF), TANF, Welfare Development Funds, and 21st Century Community Learning Centers Grants (21 CCLCG, collaborating with schools to help children stay in a stable learning environment longer).
Among these funding programs, CCDF has the greatest effect on low-income families. It was consolidated by the 1996 PRWORA with Aid to Families with Dependent Children Child Care, Transitional Child Care, At-Risk Child Care, and Child Care and Development Block Grant. It is a “combination discretionary and entitlement block grant. States must meet maintenance of effort and matching requirements for some of the entitlement funds. States may transfer up to 30 percent of their TANF block grant funds into the CCDF. States may also use TANF funds directly for child care, without transferring them to CCDF” (Blau & Currie, 2006, pp.1200-2101). In most states, CCDF adopts a sliding fee scale. Families are generally required to pay part of the child care fee. The copayment rate varies in terms of family income and size. Some states waive fees for families below the poverty line. Also, at least 4 percent of funds must be spent on quality-improvement and consumer education. Center based child care service must meet state licensing and regulatory standards.

Multiple government agencies involved in the administration of these programs (Kaplan & Sachs, 1999), such as Department of Health and Human Services, Department of Education, Department of Agriculture, Department of Justice (Office of Juvenile Justice and Delinquency Prevention), Department of Housing and Urban Development, and Department of Labor. Child care subsidy policies administered by state governments. As aforementioned, state governments have substantial discretion in formulating child care subsidy policies.

Child care policy discussions in the U.S. focus on early child care and out-of-school time care (such as before- and after-school and summer time). In general, the types of child care are maternal care, paternal care, sibling or relative care, center-based child care, family child care, babysitter care, or self-care. In this paper, care by mother or father is defined as primary care. Other care arrangements are defined as substitute or alternative child care.

The arrangement of out-of-school time child care is influenced by child characteristics such as age, gender, and race; family characteristics such as education, income, employment status, welfare status, family composition, neighborhood safety and child care facilities; as well as public intervention in terms of child care subsidies. For school age children, among out-of-school time child care arrangements, child self-care and center-based afterschool programs get the most
attention from researchers (Vandell & Shumow, 1999). Self-care (These children are known as “latchkey kids”) is more prevalent among children with working mothers (Johnson, 2005). Also, the rate of children left alone after school varies between single-parent families and two-parent families; it is lower for Hispanics and African Americans than for whites (Blau & Currie, 2006, p.1172). “Latchkey child” research has concentrated on the impact of self-care on child behavioral problems, as well as academic development issues (Lopoo, 2005; Miller, 2003).

For center-based programs, research has focused on cost, availability, and quality. The child care subsidy policy can affect maternal employment by two means: subsidizing parents with vouchers and reimbursing child care providers. The child care subsidy policies primarily supervise center-based program and family child care. For center-based programs, there are a variety of choices, including mentoring programs, recreational activities, before and after school care supervision, and summer programs. Family child cares include home care and family group care. In most states, governments require the center and the family care provider meet certain standards to be licensed. Licensing is a higher criterion for care providers. A lower standard is regulated care.

Contribution to Employment Participation
According to the most recent report (Statistical Abstract of the United States 2005), the U.S. population includes 31,846,000 children aged 5 to 12, comprising 10.7 percent of the total population in 2005. Information provided by Child Care Bureau shows that 1,746,100 children aged 5 to 12 were served by the CCDF in 2005 (Child Care Bureau, 2007). This means that among 5- to 12-year-old children, about 5.5 percent of them, were served by CCDF. CCDF primarily targets children from low-income families. If taking the number of all federally eligible low-income children as the denominator, the coverage rate is about 14 percent (Mezey, Greenberg, & Schumacher, 2003).

On average, low-income working families pay a higher percentage of their income for afterschool child care services than do families at other income levels. According to a report from the U.S. Census Bureau (Johnson, 2005), among families who paid for child care, those living in poverty spent 25 percent of their income on child care, roughly three times of the
expenditure of non-poor families. Children from middle- or high-income families are more likely than low-income children to be placed in educationally stimulating environments such as extracurricular activities. Low-income children also have less stable afterschool care and are less likely to participate in center-based afterschool care (Adams & Rohacek, 2002; Vandell & Shumow, 1999). However, low-income parents who got a child care subsidy were much more likely to use center care than non-recipients (Blau & Currie, 2006, p. 1209). Hence, government intervention in child care may benefit children by making more stable child care situations available.

Research indicates the availability and prices of substitute child care are highly influential on the likelihood of being employed, hours of paid work, and the possibility of remaining in the labor force (Blau & Currie, 2006; Han, Waldfogel, and Brooks-Gunn, 2001; Meyers, Heintz, & Wolf, 2003; Powell, 1997, 2001). Working parents (especially mothers who are employed) must constantly compare the value of time in the marketplace to the value of time spent at home taking care of children (Blau & Ferber, 1986; Becker, 1991). For low-income mothers, lowering the cost of substitute child care is equivalent to increasing the financial benefits of paid employment. Stable employment is crucial for real wage growth for low-income populations. It lengthens the job training time (increasing human capital investment) and promotes the potential for real wage growth. The high cost of alternative child care discourages parents from stable employment participation. Thus, they may have to decrease working hours or split work shifts in order to take care of children, activities regarded as harmful to long-term career development and real wage growth (Boushey, 2002).

Research finds that child care subsidy policies have positive effects to employment. Bainbridge, Meyers and Waldfogel (2003) specifically focused on the relation between child care subsidy policies and maternal employment. They found that “changes in spending in CCDBG (Child Care and Development Block Grant) subsidies to the working poor explain[ed] an estimated 7 percent of the increase in employment among single mothers with children under 13.” Moreover, focusing on afterschool child care and employment stability, Tekin (2004) finds that child care subsidies are positively related to standard work among single mothers. The effect is significant among welfare recipients. Also, child care subsidies are associated with a 6 percentage point
increase in the probability of working at standard jobs among single mothers.

Empirical data make a great contribution to child care subsidy policy evaluation. The evidence based data analysis makes on-going evaluation of child care subsidy policies illuminative and comparable.

Problems in Policy Program
Child care subsidy policies have a positive effect to child development and parental employment. However, some problems in its program structure challenge its function. Insufficient funding, fragmentary funding and administration/management structure, lack of complete information, as well as insufficient regulation of child care providers, weaken the contribution of child care subsidies to maternal employment and child development. Current child care subsidy policies have four major problems: low coverage rates, fragmentary funding and administrative structures, deficiencies in quality improvement, and unequal child care supports across regions.

First, the coverage rate of child care subsidies is low. Mezey, Greenberg, and Schumacher (2003) estimate that states only served 14 percent of federally eligible children in federal year 2000. According to Blau and Tekin (2001), those with children age 6 and older are least likely to receive a subsidy. In general, for the demand side, the level of family co-payment (varying based on income and family size) and income eligibility threshold affect the degree of coverage. Meanwhile, the reimbursement rate to service providers and policies prohibiting provider from charging family additional fees affect the supply of child care, which eventually affect the coverage rate of qualified subsidy recipients.

The second problem is the fragmentary funding sources and administrative structure of afterschool child care. Furthermore, there are a variety of programs for out-of-school time, including mentoring programs, recreational activities, before and after school care supervision, and summer programs. In an era of budget constraints, coordinating different funding sources and administration into a single system would help reduce administrative costs, such as coordinating data collection, holding joint staff trainings, or streamlining confusing or contradictory regulations that govern how providers operate.
The third problem is limited quality improvement initiatives and supervision of providers, which results in a lack of effective standards and blueprint for coherent afterschool child care service. The quality of afterschool child care varies widely (such as the level of staff education, the ratio between staff and children, and the activities undertaken in the care center). Research shows that low-income communities tend to have fewer regulated afterschool programs than do middle- and high-income communities. Also, non-center-based care, which is more available for low-income families, tends to be of lower quality than similar care used by communities with higher income levels (Adams & Rohacek, 2002). This indicates a need for public intervention in improving the quality of afterschool care especially for low-income working families.

Lastly, afterschool child care subsidies vary substantially across states. Common variations include income eligibility thresholds, priority targets, parent co-payments, application processes, funded quality enhancement initiatives, and provider reimbursement rates (Adams & Rohacek, 2002). These variations appear in different coverage rates as well as different childcare arrangements supported by CCDF. For instance, New Hampshire has the lowest percentage (23 percent) of school age children receiving CCDF subsidies, while Illinois has the highest percentage (54 percent) of school age children receiving CCDF subsidies. Among children receiving CCDF, in the District of Columbia about 98 percent were in child care centers, whereas only 11 percent among the counterparts in Michigan were placed in child care centers. In Michigan, the majority were in family home care (47 percent) or at home (35 percent). These statistics indicate substantial differences in the usage of CCDF across states, reflecting a difference in the expenditure and allocation structure and population composition across states (CCDF reports, 2006). The variations in states’ intervention in the availability of good quality child care mean unequal social benefits for individuals with the similar socioeconomic background but living in different regions.

The problems of the child care subsidies affect the capability of the policy to reach its objectives, including improving availability, quality, and equity of child care.
Challenges to Meet Policy Objectives

From the neoclassic economic perspective, government intervention in child care is necessary for three reasons: it can (1) promote equity—helping low-income parents invest in their children’s care as those with higher income do; (2) encourage work—promoting parents to work by having others taken care of children; and (3) address market failures—for instance, informing parents on the availability and quality of child care (Blau & Currie, 2006). The neoclassic economic perspective assumes a perfectly competitive child care market, where the consumer and the provider can achieve market equilibrium.

However, feminists argue that the fundamental cause of current child care problem is not that the market fails to supply the amount of licensed care that parents demand. Rather, parents are unwilling or unable to pay what it costs to put their children in licensed care (Healburn and Bergmann, 2002). They emphasize the basic problem is affordability—a shortage of funding on the demand side (families). According to Healburn and Bergmann (2002), affordability means “No family should have to lay out for child care more than 20 percent of its income in excess of the poverty line” (p.9). They argue that the problem of affordability is not caused by insufficient demand. Children are the direct users of child care, but they need their agents—parents to choose their care in the market transaction. Parents “have to be concerned about expense, convenience, and reliability.” Low-income parents are “poorly informed buyers” who are constrained by the cost of the affordable services. Meanwhile, the key child care subsidy program—CCDF is not an entitlement that any eligible family can receive merely by applying for it. Hence, not all eligible families can receive the subsidy.

Healburn and Bergmann (2002) call for additional federal funding to provide adequate financing to cover all eligible families. State governments can lower the parents’ co-payment rate to help parents purchase the service. According to their affordability calculation, “Under a 50 percent co-payment rate, every extra dollar the family earned would cause a loss of benefits and an increase in taxes that would add up to about 90 cents… A 20 percent co-payment rate lowers the loss rate to around 65 cents” (p.31).

High quality child care is safe, leads to good health and avoids illness, helps the child develop,
and gives the child a pleasant and comfortable experience. For improving the quality of child care, Healburn and Bergmann (2002) suggest that states designate a higher reimbursement rate for providers with higher quality, adopt more strict standard/supervision over the quality of the care (such as requiring license for care givers), and enforce training requirements among care givers. In addition, decreasing the turnover rate among child care workers is important for quality improvement. One key reason for the high turnover rate among child care workers is the low payment. The demand from low income families, sex and race discrimination in the job market, cultural attitude to child care workers, as well as price competition among care providers are reasons of low payment. Hence, they suggest setting special minimal wages for child care workers, shifting workers to public sectors (which have higher payment rate than the private sectors do), and promoting unionization are potential strategies.

Having equity in child care means individuals with the disadvantaged socioeconomic status can share the same public resources for child care. The low coverage rate of current child care subsidies indicates the limited impacts of government intervention in helping the disadvantaged achieve equal development opportunities. Also, low income families share different level of social support due to the great variations in states.

Child care subsidy policies in the U.S. make some positive contributions to low-income families, but there are some challenges which need to be addressed in the future. As a government tool, the strengths and limitations of child care subsidy policies in the U.S. may give some insights to other societies. As the market economy becomes dominant in China, the state’s role in child care has changed. The next section focuses on China. The discussions on social welfare in China often treat urban and rural areas separately. Given the great difference in child care choices in urban and rural areas, this discussion focuses on child care in urban areas, which is more comparable with U.S. child care discussions.
Policy Intervention in Child Care in China

Child Care and Women’s Employment in Contemporary Urban China

According to China 2000 Population Census, among children 5 to 14 years old, 35.45 million lived in cities, 26.94 million lived in towns, and 153.16 million lived in counties. This means only about 16.4 percent children 5 to 14 years old lived in cities, where the economy is usually better. (However, the actual rate of children living in urban areas would be higher if migrants’ children were counted.)

For school-aged children in cities, parents, grandparents, and relatives take major responsibilities in child care. There is also center-based care such as afterschool programs, extra curricula activities, as well as for-profit family child care providers. The availability and quality of center care and family care varies greatly by region, province, and city. Similarly to in the U.S., family socioeconomic status, child characteristics, and government interventions affect child care arrangements. The difference lies in the different interplay between family, child characteristics, and government policies, influenced by the economy, culture, civil society, as well as politics.

Based on Report on Gender Equality and Women Development in China, 1995-2005, 42.27 million women were employed in 2004 in cities and towns; representing 38.1 percent of the employed population in cities. Chinese women’s labor force participation rates are among the highest in the world, due to a legacy of socialist ideologies (for women’s liberation) and the governments’ intervention in gender equality in employment (Short et al, 2002). However, there is less campaigning in the family sphere about gender equality. In urban areas, women have high employment participation, but they remain responsible for most domestic work. As children become more precious due to the one-child policy, the strain from the dual demands of work and child care is more acute for women. The challenge is more common among single mothers, migrant labors, and low-income-low-skilled mothers.
Legislations and Policies on Child Care

Centered on the Constitution of the People’s Republic of China, there are laws on the protection of adolescents, women’s rights, as well as maternal and infant health care. The State Council enacted 1990s Chinese Child Development Compendium in 1991 and Chinese Child Development Compendium 2001-2010 in 2001, which provide a basis for child protection in China. Although there are laws and acts regarding child development and women’s employment protection, the acts are often fragmented and separated. The laws regulating childcare quality are not sufficient. Furthermore, there is a lack of specific policy objectives in terms of child care regulation. Child care is not an entitlement benefit (Rong, 2006). The policies on child development are segmented and narrowly targeted (Liu, 2006). Current child policies in China concentrate on providing children basic health care such as vaccines, health service due to disability, disaster relief, as well as child welfare service. There is also a lack of regulation on child care services and a need for the government to provide a broader and more intensive intervention in the child care arena.

Government Administration and Finance

In China, there is not a specified administration framework for child care. The child protection agencies are often affiliated to non-governmental organizations. For instance, the Child Work Section is affiliated with All China Women’s Federation (a non-government organization). A government coordinator, the National Working Committee on Children and Women under the State Council is managed by the All China Women’s Federation. Another child care related organization is Child and Youth Work Section, which is affiliated to Chinese Communist Youth League.

Without an integrative and specified government administration in child care work, the state cannot efficiently supervise and regulate public (primarily affiliated to working units or schools) or private child care. Moreover, given its weak administrative basis, the financing of child care and child service is vulnerable.

Child care subsidies from the government come in the form of working unit benefits. Employees who work for public service agencies (e.g., government) and state-owned enterprises are more
likely to have working unit benefits that include a child care subsidy. Governments subsidies function by fully sharing the cost of child care service or reimbursing parents’ child care expenditures.

There is a lack of support for families not working for government or state owned enterprises. In the era of market economy domination, more women work for non-government or non-state-owned enterprises. Fewer women can share the child care benefits provided by working units as before. Low income families, therefore encounter accumulated disadvantages: a lack of working unit benefit, and no government child care subsidy support. The subsidy mechanism produces unequal supports. Given that migrant workers and low-skilled-low-income workers are less likely to work in government agencies or state-owned enterprises, they have few or no public support in child care. If children from low income families tend to have less structured or educationally stimulated afterschool child care environment, the disadvantage is furthered. Furthermore, as more for-profit service providers enter the child care market, supervising the quality of the care and securing the same opportunities for low income children to participate in good quality child care are important.

Research shows that government interventions have a positive impact on women’s labor force participation. Kilburn and Datar (2002) use China Health and Nutrition Survey (CHNS) and find positive association between the availability of child care centers and women’s participation in the wage sector in urban areas. They suggest that the governments’ expansion of the availability of child care center would be effective on promoting mothers’ labor force participation. Also using CHNS, Short et al (2002) find that work compatibility and intensity reduce women’s involvement in child care. They suggest an expansion of good quality child care facilities and more involvement of men in child care.

**Contributions and Problem in Governmental Child Care Intervention**

As aforementioned, employees who work for government agencies and state-owned enterprises benefit from state subsidized child care. Due to a lack of empirical data, it is difficult to conduct an evidence based evaluation on China’s child care subsidy policies. Chinese women in urban areas in general have had relatively high employment participation since the 1950s. A lack of
empirical data makes it difficult to purge the role of child care subsidies from other institutional factors such growth in the overall economy. The potential positive contribution of child care subsidy is regrettably invisible, though it only benefits part of the populations in need.

Limitations in child care subsidy policies affect the availability and quality of child care, as well as produce inequality among families in need. As discussed previously, there is a need for a more specific legislation on child care. A fragmented administrative and financial structure also limits the impacts of child care subsidy policies. The devolution of social services is associated with unequal supports to disadvantaged families across regions. An implicit exclusion of children in suburban and rural areas calls for a universal child care policy. Child care subsidies could be a progressive preventive policy in child welfare, preventing children from being abandoned, neglected, or abused due to a lack of economic and social resources.

**Discussions**

Empirical data have shown that child care subsidies can have positive impacts on maternal employment in the U.S. and China. Although there are differences between China and the U.S. in population composition, culture, economy, and politics, the need for the state to intervene in child care for low income families is similar. Problems with policy design and process can limit the contribution of child care subsidy policies. The success and discussion of child care subsidy programs in the U.S. provides China a reference for developing its own child care policies. China has transformed from a central planned economy to a market economy. The role of the state in regulating child care and employment has changed. This paper provides the following suggestions: (1) An integrated administrative and finance structure is crucial; (2) It is necessary for the state to set quality standards for child care service, which regulate profit and non-profit child care providers; (3) A universal child care subsidy policy is an effective strategy in eliminating inequality among the low-income populations. Expanding the target populations with an inclusion of migrant workers, workers at private companies, and families in suburban and rural areas could benefit child development and promote more stable parents’ employment.
participation; (4) Relative care used to play a larger role in the mix of available child care. Although the availability of relative care is not the same among low income populations (such as migrant families), it is worth exploring further how to integrate relative care in child care subsidy policy design. Furthermore, the number of nuclear families and migrant families is increasing in urban China. For these families, relative care is less available. The need of center-based or family child care with good quality is high. For non-poor families, children often have diverse afterschool child care choices. The number of for-profit service provider is increasing due to a need in the child care market. However, the supply of service provider to the low income families is limited. Hence, it is important to support child care providers who serve low-income families.

Meanwhile, community development is a crucial component. Considering the great regional economic variations, collaboration among the central, provincial, and local governments needs to be further analyzed. Last, an empirical database is necessary. Conducting investigations into current child care offerings will benefit future policy evaluation.

Child care subsidy policies can be a tool for China to develop a consistent, coherent, and integrated child protection framework. They will benefit child development, support women’s dual roles in families and markets, secure family stability, and promote social equity and development.

References


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