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7 Child-Care Vouchers and Cash Payments

Between 1991 and 1997, federally related support to low-income families for child care more than doubled, going from about $5.1 billion to about $10.7 billion (in 1998 dollars). Since 1990 a portion of these funds have been subject to a requirement that states give parents the option of receiving a child-care voucher, or "certificate." Currently, nearly half of these funds are subject to the voucher requirement. Giving parents checks or cash is also allowed, and at least sixteen states and Puerto Rico do so, usually in the form of a check.

This chapter summarizes what is known about the use of vouchers and cash to enable low-income parents to select the child-care providers of their choice. It also makes some tentative judgments about the impact of vouchers and the operational issues that have arisen. Most of the other chapters in this volume explore the differences between vouchers and government-provided services (provided either directly or through grants and contracts). However, because all states already offer child-care vouchers, this chapter focuses more on implementation experiences. In addition, because some states are now making cash payments, this chapter also addresses the relative advantages of vouchers versus cash payments.

Unfortunately, there is little systematic research on these subjects, so major portions of this chapter are based on our own informal survey of state officials and child-care providers, as well as on various indirect measures of program operations.[1]

Child-Care "Certificate"

Before the Family Support Act of 1988 was implemented, most federally subsidized child care was funded through the Social Services Block Grant (SSBG), Title XX of the Social Security Act. Under the SSBG, which is still law, states may fund various social service programs. About 20 percent of SSBG funds have traditionally been used for day care, which can be provided either directly by the state, through state-owned and operated centers, or indirectly, through grants and contracts for child-care "slots" with selected providers, including centers and licensed family day-care homes.[2]

Statutory Requirement

The Family Support Act of 1988 created two additional child-care funding streams: (1) AFDC/JOBS (Aid to Families with Dependent Children/Job Opportunities and Basic Skills Training Program) Child Care and (2) Transitional Child Care. Under both, states were authorized to operate their own centers and issue grants and contracts with private agencies. In a break from past rules, states were also *authorized* to give parents certificates (vouchers) or even cash (either in advance of payment or as subsequent reimbursement). Only a few states took advantage of this new authority to provide parents with vouchers or cash.

In 1990 Congress made child-care vouchers mandatory under the new Child Care and Development Block Grant (CCDBG). At the urging of Representatives Charles W. Stenholm (D-Tex.) and E. Clay Shaw Jr. (R-Fla.), the CCDBG required states to offer voucherlike "certificates." Child-care "certificates" were defined as "a certificate, check, or other disbursement that is issued . . . directly to a parent."[3] Of equal importance to the shape of state voucher systems is another provision of the same law that, in effect, guaranteed that the vouchers could be used for unlicensed child care.

In 1996 Congress applied these voucher-related provisions to the Child Care and Development Fund (CCDF), created under the Personal Responsibility and Work Opportunity Reconciliation Act (P.L. 104-193). This act repealed the legislative authority of three child-care programs related to the Aid to Families with Dependent Children program with differing program rules—At-Risk Child Care, AFDC/JOBS Child Care, and Transitional Child Care—and replaced them with the CCDF block grant.

Vouchers

Before the use of vouchers, once eligibility for child-care aid was established, parents were typically referred to an available center-based program, such as a community-based child-care program or Head Start, or to other providers, including family day-care homes, with which the state had a contract to provide services. Now that vouchers are required under federal law, all states offer them (or cash). In fact, as a U.S. Department of Health and Human Services (HHS) report concludes, "During the last few years, *certificate use has become the primary method of financing care*."[4]

The form of vouchers varies by state, but most include the name of the provider chosen by the parent, the name of the child authorized to receive care, the hours of care authorized, the amount of reimbursement and parental co-payment, and an expiration date. Most often the authorization must be signed by the public assistance caseworker, the provider, and the parent. Providers usually submit to the government an invoice for the hours of care provided. The government then pays providers directly for their services and they are responsible for collecting any required parental co-payments.

Checks and Cash

As mentioned, since 1990 federal law has also authorized states to offer parents checks, cash, or other disbursements with which to pay for child care. Why?

According to Kristine Iverson, who worked on this provision as a senior aide to Senator Orrin Hatch (R-Utah), authorizing checks and cash was a response to state officials who were concerned about administering a voucher program. Grants and contracts seemed simpler to administer: states paid a limited number of providers a set amount to reserve space for subsidized children, and parents needing care were simply referred to the providers. In contrast, vouchers required a whole new payment apparatus capable of receiving and processing hundreds or thousands of individual payments in a confusing array of amounts to an almost unlimited number of providers. (As will be discussed below, this proved to be an initial challenge in some places.) Allowing states to use checks was thought to make the process much simpler to administer because it takes one step out of the process: the state would give a check to the parents who would then be responsible for paying providers.[5]

According to our telephone survey, at least sixteen states and Puerto Rico issue checks or cash to parents.[6] Thirteen states and Puerto Rico issue one-party checks, although two of those states, Alaska and Kansas, are issuing checks only as pilot programs to test their feasibility. At least two of these states issue two-party checks, which must be coendorsed by the parent and the child-care provider, and one state, Utah, makes a cash transfer to the parents' bank account.

States differ in the circumstances under which they will provide checks or cash. Some states provide checks or cash to any income-eligible family, regardless of welfare participation, for any type of care (center-based, family, or relative-provided care). Other states, such as Pennsylvania and Alaska, distinguish between welfare and nonwelfare families. In Pennsylvania, welfare families receive checks for all types of child care, but nonwelfare income-eligible families receive checks only to pay for informal care. Alaska offers checks only to nonwelfare, income-eligible families, which may use the subsidy to purchase any kind of care.

Some states issue checks only for relative-provided care (for example, Indiana, New Mexico, New York, and North Carolina). Others offer checks as reimbursement to parents only for emergency child-care arrangements made when a parent's primary arrangement falls through unexpectedly (for example, Missouri and Wisconsin).

Implementation

For a voucher system to work, the state must have a system for smoothly processing hundreds or thousands of vouchers. In broad outline, this means preparing individual authorizations in almost infinite variation, receiving payment requests from an uncounted number of providers, and then issuing hundreds or thousands of checks a month—all in specific amounts, depending on the amount and type of child care provided and the parents' required co-payment, if any. No wonder the states had lobbied for the right to issue checks.

It appears that some states had difficulty at least in the start-up phases of voucher systems. The initial unpreparedness of state agencies, complicated and confusing program rules, and miscommunication between agencies all resulted in late, withheld, or inaccurate payments. In almost all communities, such administrative problems seem to get worked out in relatively short order and there is no evidence that these were more than passing problems during the early stages of implementation.[7]

Otherwise, implementation seems to have gone smoothly. However, the basis of this conclusion is a little like the mouse who did not roar: neither the child-care literature nor child-care advocates complain about the implementation of voucher systems. Instead, generalized accounts are seen of successful implementation, with the partial exception of some providers not always being paid by parents, as described below.[8]

Controlling Costs

In grant and contract systems, aggregate child-care costs are controlled by the number and size of grants and contracts awarded. Per-child prices are set through the government's agency-by-agency negotiation of rates. Often these arrangements provide far fewer slots than are needed by income-eligible families, in which case rationing is accomplished by allowing agency-level waiting lists to develop. Total costs are also kept down by low participation rates by parents, who are often unhappy with the choices they are given.

In voucher systems, it is more difficult to provide less than full coverage for income-eligible families. In grant and contract systems, the central authority's rationing need not be explicit and can therefore be relatively invisible. In voucher systems, however, if funds do not exist to provide vouchers for all those formally eligible, there must be explicit rationing. The central political authority, in a relatively visible manner, must decide who gets the voucher, what service is provided, and so forth. Hence, voucher systems make it politically more difficult to provide fewer slots than there are eligible children. In addition, because vouchers give parents more choice of providers, they are more likely to use available child-care benefits, including payments for services that were once provided free by friends and relatives.

This makes controlling per-child costs even more important in voucher systems. The government, however, cannot negotiate directly with providers, because it is the parent, not the government, who selects the provider from a broad range of potential providers (with substantially different cost and price structures). Thus, under voucher systems, states seek to control per-child costs by instituting (1) calibrated reimbursement schedules that are meant to cap payment levels, depending on the type of care, and (2) co-payment requirements that are meant to create price-sensitive shoppers.

Calibrated Reimbursement Schedules

The applicable federal law originally required states to offer payment rates based on the 75th percentile of local market rates (that is, equal to or above the rate that 75 percent of local providers charge). But because of local conditions, this national standard was too high in some communities and too low in others. The 1996 CCDF lifted this requirement. About twenty-nine states and jurisdictions have used this freedom to set lower rates.[9] This seems to make sense.

Payment rates have to reflect the conditions of the local market for child care. If the rates are too low, providers will not accept publicly subsidized families or will cut back on the scope or quality of their services. If they are too high, providers will raise prices without necessarily benefiting the family or the government, and, if enough children are involved, overall market prices may rise. Or providers may give illegal rebates to subsidized families, as discussed in a later section, or they may attempt to price discriminate, setting a lower price for parents without subsidies.

The latter situation apparently occurred in Alabama and Connecticut. Officials in both states report that some providers in their states offered hefty discounts from their published rates for families not receiving government aid. (The mechanism for discriminating between the two was to offer the discount to parents who paid in advance or by a certain date.) Thus state funds for low-income families were essentially subsidizing more affluent families or increasing profits for providers.[10] In Wisconsin, state officials tried to reduce this problem by requiring providers to post their payment rates and practices and to report them to the state agency administering child-care subsidies.

Moreover, payment rates also need to take into account price differentials among different types of providers. Centers, licensed family day-care homes, and unlicensed care each have different cost and price structures. For example, according to the Survey of Income and Program Participation (SIPP), in 1993 the average weekly full-time child-care payments by families with preschoolers were $63.58 for center-based care, $51.52 for family day care, and $42.04 for relative-provided care.[11]

Co-Payments

All states impose some sort of co-payment, at least for those families toward the upper end of income eligibility, as required by the CCDBG (which

allows exemptions for low income). According to the HHS Child Care Bureau, in twenty-two states and jurisdictions, co-payments can exceed 10 percent of family income.[12]

One purpose of co-payments is to make parents price sensitive by having them pay more for higher-priced care and less for lower-cost care. As with reimbursement schedules, states must be careful not to set co-payment rates too high, lest they discourage the use of child care or encourage the use of inadequate child care, nor too low, lest they have no effect on parental decisionmaking.

Thirty-two states and jurisdictions set specific co-payment amounts based on family income. They range from a minimum of $8 a month per child for families below the federal poverty level in Wyoming to a maximum of $491 a month for families at the high end of the sliding scale in Minnesota. Two states (Maine and Virginia) set the co-payment as a percentage of family income. In Maine, families pay between 2 and 10 percent of their income, according to a sliding scale. In Virginia, families pay between 10 and 12 percent of their gross income, depending on the number of children they have, although some families below the federal poverty line are exempted. Fourteen states and jurisdictions charge a percentage of the cost of care, ranging from Vermont's 1 percent to Idaho's maximum of 90 percent for families at the high end of the income scale. Three states and the District of Columbia use a combination of these approaches.[13]

There is widespread anecdotal evidence that some parents have difficulty making their co-payments. It is not clear whether their nonpayment is caused by the inability to pay, a desire to pay for other things, or simple neglect or inattention. The seriousness of the problem is also difficult to gauge. Apparently, no state systematically collects information on the subject. In any event, parental nonpayment does not seem to have been a serious enough problem for any state to have taken concerted corrective action, although some states have attempted to improve payment rates by lowering co-payment rates.

Substitution and Monetization

Most low-income parents have traditionally relied on other household members for child care, as well as on friends, neighbors, and relatives, who provide it free or at low cost. For example, as late as 1994, over half of the children in families with incomes up to 150 percent of poverty were in relative-provided care—even when the mother worked full time.

One of the reasons many income-eligible parents did not take advantage of child-care subsidies (before vouchers) was because the subsidies were only for center-based care, which the parents either did not want or found inconveniently located. Or the parents worked part time and could not find a contracted-for provider who would take their children only part time. Often, they just paid for the care themselves.

Vouchers, and especially vouchers to unlicensed providers, remove these barriers to accepting child-care assistance—because most voucher systems enable parents to use a wider array of informal providers, including friends, relatives, and neighbors. Thus to some unmeasured but undoubtedly large degree, vouchers have resulted in both the substitution of government spending for parental spending and the monetization (at the full market price) of services that were once provided for free or at low cost.[14] To quote one Alabama official, "once child-care money was available, grandma wouldn't do it for free."

Of course, from a social cost point of view, grandma never did it "for free." But that is a different issue. In addition, it appears that many of these informal providers are turning back to the parents some portion of the voucher's value. (More on this in the last section.)

How large an issue is this? No one knows for sure, but consider the following: In 1993 there were about 135,000 paid relative-provided care arrangements for poor children, for which payments totaled an estimated $423 million. In addition, there were about 295,000 unpaid relative-provided care arrangements. If the government had paid for the care of all the poor children now being cared for by relatives, the annual cost would have been $1.3 billion—more than three times actual expenditures. This rough estimate, based on 1993 data, is only meant to suggest the potential amount of monetization. It does not reflect the large increase in the number of children in child care brought on by welfare reform, nor does it include likely price increases caused by the newly or more easily available subsidies for relative-provided care.

The issue of monetization has taken on sufficient momentum that officials in some states are considering whether to prohibit the use of vouchers for family members. Wisconsin already prohibits the use of vouchers for relatives who live in the child's home. In addition, regardless of training, relatives are not eligible to receive the higher reimbursement rates that Wisconsin offers to providers who have completed training in child development, unless they are also caring for unrelated children. In New York City, officials are considering whether to eliminate reimbursement for relative-provided care entirely.

Child-Care Market

Just about all experts agree that a functioning, diverse market for child-care services has existed for some time. Not every service has been available for all families. Infant care, for example, is a long-standing problem. But by and large, supply seems to meet demand (and more so, actually), parents seem to act like price-sensitive consumers, and child-care agencies seem to compete for customers. What has happened with the introduction of vouchers?

More Choices

For their proponents, one of the great advantages of vouchers is that they have vastly broadened parental choice. In the years since vouchers were introduced, there has been an unprecedented increase in the number and variety of providers now available to low-income families receiving child-care assistance. Based on a 1993 study of child-care agencies in fifteen states, for example, Christine Ross and Stuart Kerachsky of Mathematica Policy Research describe how, by "using vouchers, parents can shape the child care market to provide more of the types and features of child care that they want. Vouchers expand parents' choice of providers to include relatives and informal providers—persons who are generally not included in contract systems."[15]

Some parents need only half-day care; some need evening or after-hours care; and others need full-day care, perhaps with extended hours. Some parents want their children cared for by other family members; some want to use neighbors; others want a nursery school; and still others want a care center, perhaps in a church. Some parents may want all their children of different ages in one place; others may not care. Some parents will want their children close to home; others will want them close to work. The variations are almost infinite.

Under a grant or contract system, it is a practical impossibility for public authorities to enter into contracts or make grants that cover all these possibilities. Vouchers, however, can accommodate such variation with relative ease.

There is also some evidence that vouchers have reduced the economic (and racial) segregation of clients inherent in programs based on grants and contracts. For reasons of administrative practicality, under a grant or contract system there is a tendency to fund only those providers that serve a large number of economically disadvantaged families or that are located in neighborhoods where such families predominate. These facilities then become de facto segregated by income—and often by race. In one of the few studies on the subject, Yale professor of law and public policy Susan Rose-Ackerman analyzed the use of grants and contracts for subsidized day care in the 1970s and early 1980s. She concluded that "the level of segregation by race and class is high under existing programs."[16]

Vouchers remove the government's inadvertent role in fostering this level of economic and racial segregation, because they decentralize the decisionmaking process. Giovanna Stark, president of Government Action and Communication (GAC), a consulting group, and former executive director of California's Child Development Policy Advisory Committee, explains, "Vouchers can result in mixing children from different economic backgrounds. The more socioeconomic integration there is in a residential community or an employment center, the more useful vouchers are in allowing that larger integration to be reflected within a child care setting."[17] Of course, the agencies or firms serving the middle class must be willing to accept the voucher.

Increased Supply

The expanded use of vouchers happens to have coincided with a major increase in the demand for child care. By almost all accounts, the supply of child care easily expanded in response to this increased demand.

If the supply of providers had not risen to meet this increase in demand, all other things being equal, the price of child care could have been expected to increase. There apparently is no evidence of widespread price increases.[18] Thus a December 1997 report by the President's Council of Economic Advisers that examined the effect of subsidies on the cost of child care concluded that "the available evidence indicates that the supply of care will rise to meet an increase in demand for care without much of a change in the current price. For example, although the number of children in paid care has approximately doubled over the past twenty years, the real price of care has not changed. In addition, direct estimates indicate that small changes in the price of child care induce large supply responses. As a result, in the absence of other changes, the benefits of a subsidy accrue to the consumer."[19]

The existence of a functioning, decentralized market for child-care services—with relatively low barriers to entry, especially for family day care—has contributed to the apparently easy expansion of child-care slots. Unlike some of the other program areas considered in this volume, before

the widespread introduction of vouchers, the government did not maintain a near monopoly on services (as in the case for elementary and secondary schools, for example). Instead, there was a plethora of formal and informal, for-profit and not-for-profit providers.

Vouchers seem to have facilitated the market's response. They allowed parents to go directly to providers, especially informal providers, that had vacancies or that could expand to meet the increased demand, thus avoiding a cumbersome, slow-moving contract and grant-making process. For center providers as well, vouchers have greatly reduced the paperwork and other administrative tasks related to serving subsidized clients. The director of a center in Boston noted that contracts with the state to purchase slots required the completion of over fifty pages of forms each year. Establishing eligibility to serve clients with vouchers, conversely, only required the completion of a five-page form each year.

Competition for Customers

In theory, vouchers should also improve the quality of child-care services. "Customer-driven systems force service providers to be accountable to their customers," argue David Osborne and Ted Gaebler in their influential book *Reinventing Government.*[20] Service providers need to win the patronage of the clients they are meant to serve, in both senses of the word. Vouchers also make it easier to defund obviously unsuccessful or unsatisfactory programs—because recipients will simply stop selecting them.[21]

Moreover, in a market with a substantial proportion of voucher holders, providers would be expected to compete for customers by tailoring services to their needs and preferences. That is what seems to have happened in inner-city Milwaukee under the Wisconsin voucher system.

Wisconsin's system, revised to accommodate its welfare reform program (W-2), opened up the entire child-care market to voucher holders, who, because of the required co-payment, were also encouraged to be price sensitive. At the same time, Wisconsin's welfare reform, which paired a guaranteed child-care subsidy with a requirement for all able-bodied recipients to work or participate in a work preparation activity, expanded the child-care market with a flood of voucher-holding parents seeking child care.

The question was: Which child-care providers would the W-2 parents choose? In inner-city Milwaukee, a coalition of about sixty inner-city providers, Day Care Advocates of Milwaukee (DCAM), decided to compete against lower-cost family day-care homes and unlicensed providers by offering enhanced services geared to the needs of W-2 participants. With the help of foundation grants, the DCAM members expanded their services to meet the needs of working mothers as well as their children. These services included extended-hours care plus meals; psychological, cognitive, and social development testing; stress management and employment counseling; parenting and nutrition classes; teen-parent centers; help with W-2 requirements; and family advocacy.[22]

How unusual is it for centers to offer these enhanced services? In 1990 Mathematica Policy Research conducted a national survey of 1,581 child-care centers, 231 Head Start programs, and 583 family day-care homes.[23] According to the survey, only about one-third of the centers in the national survey offered physical exams and psychological, cognitive, and social development testing (presumably mostly the Head Start centers)—compared to about 60 percent of DCAM centers. More telling was the absence of work-related services. For example, only 3 percent of the centers in the national sample provided dinner, compared to 20 percent of DCAM centers.

It remains to be seen whether this kind of provider response will occur in other places. Milwaukee enjoyed a unique combination of carefully crafted policy, supportive foundations that funded the initial expansion of services, and DCAM's coalition of savvy and caring inner-city providers.[24] Moreover, DCAM's grass-roots providers served the neighborhoods that were the heart of welfare reform. Between 80 and 90 percent of its clients were in W-2. So their decision to focus on W-2 recipients should not have been surprising. Nevertheless, the Milwaukee example does reveal the promise of bottom-up, market-driven approaches fueled by vouchers.

The "Problem" of Unlicensed Care

Vouchers have made government aid available for unlicensed child care because of the federal mandate mentioned above. As a result, reports the HHS inspector general, "Approximately half of parents using certificates obtain care from informal providers—neighbors or relatives. Most of these informal providers are license-exempt—they operate legally outside of the states' regulatory framework."[25]

Incentives for Lower-Cost Care

Many child-care experts believe that parents are being forced into home-based and unlicensed child care—through low reimbursement rates and high co-payment requirements that encourage parents to seek low-cost care. And they worry about the quality of such child care.

In Wisconsin, for example, a family at the federal poverty level with two children in care must pay $112.58 a month in co-payments for licensed care, compared to $77.94 a month in co-payments for unlicensed care. In fourteen other states, co-payments are determined as a percentage of the cost of care. Since unlicensed, informal care is significantly less expensive than licensed care, this creates a strong incentive for parents to seek lower-cost, informal care.

Thus state voucher systems can create strong incentives for parents to use less expensive care, which generally means unlicensed, home-based care. In many states, these informal providers may not even be subject to government health and safety regulations.

The evidence is mixed, however, about whether these incentives actually change many parental decisions. Even in states where the co-payment is based on a straight percentage of family income regardless of the cost of the care, parents seem to be choosing informal care in accord with their pre-existing preferences. For regardless of family income, informal, home-based care is the most common form of child care for all children under age five. A total of 70 percent of the children of all working mothers are in home-based care, which encompasses care by all relatives (including fathers), in-home babysitters or nannies, and family day care.[26] This overall statistic, however, obscures very real differences in parental preferences based on the child's age and developmental needs.

Parents tend to prefer informal or home-based care for younger children, that is, infants and toddlers. The picture changes sharply for three- and four-year-olds. Parents tend to prefer center-based programs for older children because of their emphasis on cognitive and social development and structured educational curriculums. Ellen Kisker and Rebecca Maynard, in their study of quality, cost, and parental choice in child care, report that parents with older children in care are highly concerned about "whether the environment promotes learning."[27] One-third of the mothers they surveyed reported that they would change arrangements if cost was not a factor; "most of these mothers would prefer center-based care for their child because [they think that] the child would have better learning opportunities."[28]

If cost were no object, more low-income as well as lower-middle-class parents would probably use high-cost, center-based care, especially for their older preschoolers. For example, the 1990 National Child Care Survey asked parents two questions to gauge their child-care preferences:

(1) "How satisfied are you with your [current arrangement]?" and (2) "Assuming you could have any type or combination of care arrangements . . . would you prefer some other type or combination of types instead of what you have now?" A total of 96 percent of the respondents reported being either "very satisfied" or "satisfied." Despite this high rate of satisfaction, 26 percent of the parents said they would "prefer some other type" of care, and about half of these parents said they wanted to switch to center-based care.[29]

This apparent preference, however, should be interpreted with care. First, we do not know the age of the children involved, which could be significant, as parents tend to prefer centers for older children. Second, parents were asked what child-care arrangement they would "prefer," suggesting that cost should not be a factor. This is like asking "If I gave you a car for free, which would you prefer, a Chevrolet or a Cadillac?" When given a free choice between goods with such different prices, one would expect consumers to choose the higher-priced good, because they think price indicates product quality or because they want to maximize the value of what is being given to them for free.

Nevertheless, it is undoubtedly the case that, if given free access to the most expensive, center-based child care, many parents would accept it, at least for their older children. Thus the question is: Is licensed family day care and center-based care sufficiently better for children that taxpayer funds should be used to fund them? Surprisingly little evidence suggests that they are.

Nonenforcement of Licensing Standards

The argument in favor of licensed care presupposes that licensing standards are enforced. Enforcement, however, seems uneven at best. David Blau and Naci Mocan, for example, examined detailed data on the characteristics of quality that are regulated and the child-care environment from a random sample of 400 day-care centers in four states collected in 1993 as part of the Cost, Quality, and Child Outcomes in Child Care Centers (CQCO) study. Blau and Mocan concluded that

> if regulations affected the behavior of centers, then [they] would expect to find many centers with a group size and/or child staff ratio at or close to the regulation. However, the great bulk of firms substantially exceed the regulations (i.e. they have a group size smaller than the regulated maximum, and a staff-child ratio higher than the regulated maximum), suggesting that the regulations are not binding. Those firms that do not exceed the regulation are often well below it (or above, in the case of group size). This suggests that not only are the regulations not binding, but they are not strictly enforced, either.[30]

Does Licensing Improve Child Outcomes?

One of the major assumptions in the child-care field is that the standards of care that professional and advocacy organizations propound (often called "quality" standards) lead to better physical, emotional, and cognitive outcomes for children. As a general principle, this makes sense. The way children are cared for during the day ought to affect their development. The existing research, however, provides no persuasive evidence that the characteristics of child care that can be effectively regulated result in better outcomes for children.

Studies that have attempted to evaluate the effects of child-care quality on child outcomes have come to inconsistent and contradictory conclusions. Findings vary by age of the child, child-care arrangement, and outcomes examined. Some studies find no correlation between characteristics subject to regulation (such as staff-to-child ratios, staff training, and group size) and child outcomes (such as social and cognitive development); others find small correlations between some characteristics and some outcomes for some groups of children.[31] As Ron Haskins writes, one "problem with studies of child care quality is that the observed correlations are modest and nearly all the studies are short-term."[32]

Not only are the correlations small, but they are plagued with unresolved questions of selection bias. That is, they cannot adequately control for family background or child characteristics, which also strongly influence child development as well as the choice of provider.[33] Ellen Kisker and Rebecca Maynard, for example, after reviewing much of the available literature on characteristics of child-care quality and child outcomes, concluded that "due to the limitations of the research showing that these characteristics of care are associated with child development outcomes, the levels of these indicators of quality that constitute acceptable, good quality care have not been well established . . . there is no strong empirical basis for suggesting particular thresholds for each of the child care quality indicators."[34]

The lack of definitive findings in this large body of research should not be overinterpreted. It is unlikely that the "quality" of child care is irrelevant to child development. It must matter what kind of environment a child is in for many hours of the day. There are at least two possible explanations for the absence of clear research results: either impacts cannot be measured using current research tools (perhaps because the qualitative differences among programs are not as great as supposed) or the characteristics of child care that lead to good child outcomes are not those subject to regulation. As Sandra Scarr concludes, "regulations affect actual quality of care only tangentially. . . . States cannot legislate warm, sensitive interactions or rich learning opportunities provided by talented teachers. Therefore, regulations that directly produce higher costs improve quality of care only indirectly."[35]

The point is that current research is simply too slender a reed for aggressive policymaking, especially given the inarguable costs of regulation. Even home-based care is substantially more expensive when it is licensed. Although estimates vary and undoubtedly depend on the types of care provided, regulated home-based child care costs from 10 to 30 percent more than unregulated care.[36] William Gormley, a professor of government and public policy at Georgetown University, surveyed local regulation in cities with populations greater than 50,000 and "found extensive local regulation of relatively small family day care homes. For example, family day care providers who care for six children are required to have a business license in 39 percent of these cities; an occupancy permit in 43 percent; and a zoning permit in 28 percent."[37] In his study of family day-care home regulation in Milwaukee County, Wisconsin, Gormley "found cost increases directly attributable to regulation. The cost of home improvements alone was $936 per provider."[38]

Besides raising costs for parents (or government), Gormley found that these regulatory burdens reduced the supply of family day-care homes. He found that regulation was responsible both for declines in the growth of new licensed providers and for declines in the actual numbers of licensed providers of family day care.[39]

Vouchers versus Cash

As mentioned above, about sixteen states and Puerto Rico give parents checks and cash instead of vouchers. Thirteen of these states and Puerto

Rico issue one-party checks, two issue two-party checks, and one makes a cash transfer to the parents' bank account. Since two-party checks are more like vouchers than cash, this discussion is largely about one-party checks and cash transfers.

Even More Parental Choice

A major reason for allowing states to use cash payments was concern over the difficulty of administering voucher systems. But cash subsidies have another benefit: they seem to increase parental options by widening their choice of providers.

First, some states are unwilling to directly support unlicensed care. They seem worried that honoring vouchers from unlicensed child-care providers might be interpreted as endorsing the particular provider, which could be an embarrassment should there be a problem later. Cash payments to the parents thus insulate the state from criticism if a provider is subsequently found to be inadequate or worse.[40]

Second, like food stamps, there is some stigma associated with child-care vouchers. Some providers do not want to serve present or even former welfare recipients. Cash assistance prevents the provider—and other families—from knowing that the family is receiving government aid. That also tends to prevent providers from overcharging subsidized clients or engaging in cross-subsidization.

Cathie Pappas, Utah's block grant administrator for child care, believes that her state's replacement of its voucher system with a cash payment system not only greatly increased parents' flexibility in choosing care, but has also reduced fraud committed by providers. (Previously, Utah paid providers directly, and providers would often accept payment and continue billing the state even if the subsidized parent had not been receiving care or received fewer hours of care than the amount subsidized.)[41]

Conversely, knowing that parents are receiving their child-care assistance in cash may make some providers unwilling to serve them—for fear that they will not pay their bills. Several states reported that some providers were refusing to serve clients with cash or check subsidies for fear they would not be paid on time. States such as Alaska, Kansas, and Utah have tried to ameliorate this problem by eliminating three-way payment agreements that required signatures from the parent, provider, and caseworker. Payment agreements are now made between the parent and the caseworker only. That way providers no longer know which parents are receiving subsidies.

Ensuring Parental Payments

These cash payments to parents through either one-party checks or bank transfers are in direct opposition to an HHS "strong" recommendation to the states.

> We strongly discourage a cash system, because providers must meet health and safety standards, and we believe that the use of cash can severely curtail the Lead Agency's ability to conform with this statutory requirement. If, nevertheless, a Lead Agency chooses to provide cash, it must be able to demonstrate that: (1) CCDF funds provided to parents are spent in conformity with the goals of the child care program as stated at section 658A of the Act, i.e., that the money is used for child care; and (2) that child care providers meet all applicable licensing and health and safety standards, as required by section 658E(c)(2) (E) and (F) of the Act. Lead Agencies, therefore, may wish to consider having parents who receive cash attest that the funds were used for child care and to identify the provider. Such a statement would help assure that the funds were expended as intended by the statute and lessen the possibilities for fraud. Finally, Lead Agencies are reminded that they must establish procedures to ensure that all providers, including those receiving cash payments from parents, meet applicable health and safety standards.[42]

Left unsaid in the HHS comment, of course, is the fear that parents may misuse the money. One danger is that they will either leave the children home, unattended, or that they will use grievously inadequate caretakers. No state, however, reported this as a serious or substantial problem.

The other danger is that parents will arrange child care but not pay for it. Although there are no estimates of the prevalence of nonpayment, this was a problem reported by some states. The providers then complained to the state. But the state, having already issued a payment to the parents, could not issue the same payment twice. The states then undertook the difficult, time-consuming, and often unsuccessful effort to recover payment from the parents. For this reason, Alabama and Connecticut are both in the process of phasing out their cash programs; Arizona and Nevada have already terminated theirs.[43]

In all states that give cash, therefore, monitoring parental payments is an important issue. All states require the parent to present a receipt indicating how the provider can be contacted, the hours of care used, the payment rate, and the amount paid. This can even be a handwritten note from an informal provider. In Kansas, for example, the parent must present a receipt for child care received and paid for each month in order to get the next month's subsidy. Some states also require that both parents and providers sign the receipt. Other states, such as Colorado, issue three-party payment agreements between the parent, provider, and agency that define the type of care and the amount of the subsidy.

States also have adopted a variety of sanctions for parents who fail to present a receipt for services, or for parents who use less care than provided by the cash subsidy and pocket the rest. Some states reduce the next month's subsidy by the amount unaccounted for; others terminate the subsidy until the parent reimburses the state for the amount unaccounted for or produces a receipt. In some states, repeated problems may result in parents losing their eligibility to participate in the program.

Forced Consumption versus True Cash Out

As we have seen, the diversity of the child-care market and of parental needs for care mean that the price of care can vary widely—even in the same community. Moreover, the evidence suggests that parents are in a better position to judge the quality of care and are much better positioned to obtain a lower price than is the government.

What happens when the actual price of child care is substantially below the value of the cash payment to the parent so that the parent might be able to bargain for a lower payment? This often is the case with informal care, but it is also possible in regard to center care. Or what happens if the caretaker is a good friend or relative who is willing to take less money so that the family has more? In both situations, the parent may be tempted to keep the difference.

Call it a rebate, a kickback, or a side payment, the dynamic is the same: the value of the voucher exceeds what the parent must spend to obtain child care—and the provider is willing to return at least some of this excess payment to the parent. As we saw, one way to deal with this problem is to have a three-tiered price structure—for center-based care, licensed family day care, and unlicensed care. That helps. But given the vast array of providers and the different needs of parents, the government cannot set the one right price for each tier of child care, because there is none. That is why states also impose co-payments.

The plain fact, however, is that many parents simply would not want to consume as much child care as the government apparently wants them to spend. Consider a close parallel: the thriving black market for food stamps.[44]

No one knows the extent of informal child-care rebates. Many state officials seem to be going along with, or at least taking no action to curtail, them. These side payments are most easily made when the parties are close and the child-care subsidy is in the form of a one-party check. But they seem to occur even when a two-party check or an actual voucher is used, and even when the parent and provider are strangers. It is only that the transaction seems more natural and hence more likely when it is the parent holding the cash.

This is an entirely understandable process, and, unless the parents are using terribly inadequate caregivers, it ought to be legal. Just give the parents money and make them responsible for finding child care for their children. Besides recognizing the inevitable, there is otherwise no incentive for parents who do not face a co-payment to select a low-cost provider.

There is a precedent for cashing out child-care expenses, and a pretty good one: the now-defunct Aid to Families with Dependent Children dependent care disregard, which was offered to parents combining work with AFDC payments. The disregard allowed for the offsetting of parents' work-related child-care expenses up to $175 a month for each child age two or older, and up to $200 a month for each child less than two years old. The disregard reduced parents' "countable earned income," which increased their AFDC grant amount.[45] Parents could claim the disregard for any kind of child care, including relative-provided care. Parents were required to present receipts for child care purchased, and, in the case of relative-provided care, the receipt could be a note designating the hours of care used and the amount paid. In 1996, the last year of the program, 73,351 families claimed an average of $183.69 a month in child-care fees. Total federal expenditures were $162 million in 1996.[46]

The public, however, may not be ready for such a radical idea as a full cash out of child-care benefits. There is a less extreme alternative.

Refundable Vouchers?

If simple cash payments are politically unattainable, or if society determines that it wants to encourage a level of child-care consumption higher than parents would otherwise want, consideration should nevertheless be given to making vouchers refundable.

Recipients who can pocket the difference between a lower-cost provider and the dollar value of the voucher have a strong incentive to be cost conscious. Indeed, refundability may be the only way to create cost consciousness among recipients whose incomes are too low to impose a co-payment of any meaningful size.

Actually, the idea of refundability is not that radical. For many years, the United States has offered a refundable education voucher to service members and veterans. Authorized by what is commonly referred to as the GI Bill and administered by the Department of Veterans Affairs, the federal government currently provides $528 a month to service members and veterans pursuing education or vocational training. Eligibility is based on months of service—to receive thirty-six months of benefits (four academic years), participants must serve at least forty months of a forty-eight-month enlistment or thirty months of a thirty-six-month enlistment.

The voucher is for tuition and living expenses, and full-time participants receive $528 a month regardless of whether they choose to attend a private or public college or university or a vocational training program. The amount is adjusted depending on hours in school. If the student attends an institution for which tuition is less than $528 a month, students can keep the difference and attribute it to living expenses.[47]

Section 8 housing vouchers also have an aspect of refundability. "If a household can find an acceptable unit renting for less than [the amount of the voucher], it can keep the difference."[48] In essence, refundability is a reality when there is (or can be) a black market for the vouchers, such as with the food stamp program. And it can also develop in those systems, such as child care and housing, in which the recipient and the provider can agree to what is essentially a kickback, legal or otherwise.

Voter resistance to refundable vouchers would, nevertheless, probably be substantial. In an innovative response, John Hood of the Reason Public Policy Institute has proposed that recipients "have the option of depositing any part of the [medical] voucher not spent on medical insurance or care not only into medical savings accounts but also in educational savings accounts, from which they could make withdrawals for their or their children's education, or individual development accounts, from which they could make withdrawals for housing, transportation, or other approved expenditures to help get themselves off public assistance."[49] The idea is particularly apt for medical vouchers, since they would be so large and the possible price reductions through competition so great. But this concept of modified refundability could be applied to other areas as well, such as food stamps.

One other possibility is the kind of bundled voucher recommended by Robert Lerman and C. Eugene Steuerle in this volume. They propose grouping together voucher amounts for several services to offer families "structured choice." Using this approach, "recipients can use a voucher in choosing from an expanded, though still limited, set of goods and services. . . . A broad form of structured choice would involve a voucher that could pay for a wide variety of goods and services, such as food, housing, education, child care, moving allowances for new jobs, and transportation. A narrow form might include only a couple of services, such as child care and transportation." Bundled vouchers offer recipients a wider range of choices, by deciding how much to spend on each service, while still targeting the financial assistance to certain goods and services.

Some may argue that it is not necessary to make vouchers formally refundable, because parents who really want to can work around the system. This makes them criminals, however, under highly questionable circumstances. (We recognize that providing refundable vouchers, or cash for that matter, may give a windfall to those families that can obtain free or low-cost child care. But that is how the nonwelfare world works, and it might even help stabilize otherwise weak household arrangements.)

Conclusion

A chapter on parental choice should not be closed without recognizing that parental decisionmaking is not appropriate in all situations. Parents must have a sufficient personal interest in the quality of the care the child receives and must function at an adequate level to make informed and responsible choices. Thus vouchers may be inappropriate for (1) involuntary interventions or authoritative services, such as those for child abusers, and (2) incompetent or dysfunctional recipients. Certainly, cash payments would be.

But these are minor limitations. This chapter has traced the apparently smooth implementation of child-care voucher systems in all states. Although there are real gaps in child-care services, especially for infants and toddlers, vouchers seem to provide a means to reflect the needs and preferences of the great majority of children—without central or government planning.

Why was the implementation of state voucher systems so easy? And why do vouchers seem to enjoy much broader support than, say, school vouchers? The main answer seems to be the size and diversity of the preexisting child-care market—with many providers wanting to participate compared to a small number of nonprofit agencies that already had grants and contracts. Many of these prospective providers were religious or sectarian and, without vouchers, would not have been able to serve publicly subsidized children. At the same time, the same concerns did not exist about the separation of church and state (for unclear reasons, since many child-care providers have a distinctly religious tone) or about undermining the public system (because there is none). Nor were there strong vested interests (in the form of a large unionized work force) to protect the status quo.

Moreover, there was wide recognition of the heterogeneity of parental tastes and needs. Many parents, for example, had a keen interest in informal care, especially for infants. Many wanted a system that kept the care within the family. Only vouchers and cash could respond to this desire for diverse and informal care. It also helped that the states realized that a voucher system could be less costly, because more parents would choose family day care and unlicensed care, and would be easier to administer, since parents are making the basic decisions.

The major disadvantage of voucher systems, of course, is the obverse of the last point. Vouchers make it more difficult to push children into regulated, center-based care, even though some experts believe that it is better for children. Some think that this is the crux of the issue. They say that parental choice should be constrained because the purpose of policy should be to improve the "quality" of child care.

We think this underestimates the centrality of parental responsibility for their children's well-being and raises the major question about vouchers: Can parents be trusted to make the right child-care choices for their children—especially if they are made moderately cost conscious through co-payments, refundable vouchers, or cash payments?

As we have seen, the evidence, although limited, suggests that parents can be trusted, that they make good choices for their children—often better than the government can. Other observers, however, review the same evidence and conclude that children need more "quality" in their child care and believe that, with enough money, the government can deliver that quality.

That raises an even larger issue: Given the ambiguous impact of expensive "quality" child-care programs on child development, how much money should be spent on them versus other programs for disadvantaged children? That is not a question that is often heard in the child-care debate, but it should be decisive.

Notes

1. In June and July of 1998, using contact information provided by the Department of Health and Human Services Child Care Bureau, we conducted telephone interviews with state Child Care and Development Fund administrators in the fifty states, the District of Columbia, and Puerto Rico. Administrators were asked to give program details about the method of distribution (cash in advance, reimbursement, electronic benefit transfer), eligible recipients (some states distinguished between Temporary Aid to Needy Families [TANF] and non-TANF families in providing cash subsidies), and type of care for which cash would be issued (some states provided cash for all types of care, some only for informal providers, and some only for emergency care). Administrators were further asked to discuss perceived successes, failures, or complications.

2. Children's Defense Fund, *Federal and State Government: Partners in Child Care* (Washington, D.C., October 24, 1997).

3. *Child Care and Development Block Grant Act of 1990*, H. Rept. 5835, 101 Cong. 2 sess. (Government Printing Office, October 26, 1990), sec. 658E(c)(2)(A)(i)(I) & (II).

4. Department of Health and Human Services, Office of Inspector General, *States' Child Care Certificate Systems: An Early Assessment of Vulnerabilities and Barriers* (February 1998), p. 3. Emphasis added.

5. June 30, 1999, telephone interview by Nazanin Samari with Kristine Iverson, legislative director for Senator Orrin Hatch.

6. In its January 1995 report on state child-care subsidy payment approaches, the Children's Defense Fund reported that twenty-two states "made direct payments to parents receiving general child care assistance in at least some situations." See Children's Defense Fund, *Pre-Welfare Reform State Child Care Policies: Original Data* (Washington, D.C., March 1999), p. 3. Our telephone survey of state child-care administrators indicates, however, that many states reevaluated and modified their child-care subsidy programs after the creation of the 1996 Child Care and Development Fund. Our survey indicates that at least sixteen states and Puerto Rico have continued to make direct payments to parents: Alabama, Alaska, Colorado, Connecticut, Hawaii, Idaho, Indiana, Kansas, Minnesota, Missouri, New Mexico, New York, North Carolina, Pennsylvania, Puerto Rico, Utah, and Wisconsin.

7. Researchers Thomas Kaplan and Ingrid Rothe of the Institute for Research on Poverty report that "some serious early problems with long delays in referrals and payments in Milwaukee appear to have been largely resolved after the state provided extra funds to the county to hire more administrative staff." Thomas Kaplan and Ingrid Rothe, "New Hope and W-2: Common Challenges, Different Responses," *Focus*, vol. 20, no. 2 (Spring 1999), p. 47. However, as recently as October 11, 1999, the *Washington Post* reported that the District of Columbia government was having difficulty reimbursing day-care providers for vouchers given to foster parents and that "many day-care providers no longer accept D.C. payment vouchers." Sari Horowitz and Peter Slevin, "Foster Parents Protest Lag in D.C. Day-Care Payments," *Washington Post*, October 11, 1999, p.1, col. 1–2, at p. A18, col. 4.

8. See, for example, Helen Blank, director, Child Care Division, Children's Defense Fund, testimony before the House Committee on Ways and Means Subcommittee on Human Resources, 106 Cong. 1 sess. (Government Printing Office, March 16, 1999); Christine Ross and Stuart Kerachsky, "Strategies for Program Integration," in Douglas J. Besharov, ed., *Enhancing Early Childhood Programs: Burdens and Opportunities* (Washington, D.C.: Child Welfare League of America and AEI Press, 1996).

9. HHS, *States' Child Care Certificate Systems*, p. 7.

10. June 22, 1998, telephone interview by Nazanin Samari with David McCarley, director, Child-Care Subsidy Program, Alabama Department of Human Resources, Welfare Reform Division; Peter Palermino, program manager, Connecticut Department of Social Services, Division of Child Care; Connie Shorr, acting program administrator, Arizona Department of Economic Security, Child Care Administration; Jerry Allen, state child care coordinator, Nevada Department of Human Resources, Welfare Division.

11. Preschoolers are children age zero to five. Average cost includes paid arrangements only; average cost for family day care includes both licensed and unlicensed homes. Lynne M. Casper, *What Does It Cost to Mind Our Preschoolers?* (Bureau of the Census, 1995), table 2.

12. HHS, *States' Child Care Certificate Systems*, p. 8.

13. National Child Care Information Center, *Child Care and Development Block Grant: Report of State Plans* (Department of Health and Human Services, March 1998), p. 50.

14. June 22, 1998, telephone interview by Nazanin Samari with McCarley, Palermino, Shorr, and Allen.

15. Ross and Kerachsky, "Strategies for Program Integration," p. 56.

16. Susan Rose-Ackerman, *Unintended Consequences: Regulating the Quality of Subsidized Day Care* (Yale University Institution for Social and Policy Studies, 1983), p. 9.

17. August 2, 1999, correspondence to Nazanin Samari from Giovanna Stark, president, Government Action and Communication.

18. Possibly conflicting data come from what parents tell the Census Bureau about how much they pay for care. According to the census, the percentage of monthly income spent on child care for families with employed mothers who pay for care increased from 6.3 percent in 1986 to 7.3 percent in 1993. In addition, the weekly cost of care increased from $58 in 1986 to $70 in 1993. Census Bureau, *Who's Minding the Kids? Child Care Arrangements: Fall 1991*, Current Population

Report P70-36 (1991), table C2. However, there is no way of knowing if this reflects an increase in the price of care, an increase in the number of children families have in care, or an increase in the number of hours the children were in care.

19. Council of Economic Advisers, *The Economics of Child Care* (December 1997), pp. 12–13.

20. David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector* (Reading, Mass: Addison-Wesley, 1992), p. 181.

21. Even if government initially picked allowable providers, it could drop them based on the actual selections of clients: A rule could be established that a minimum number of clients must select that particular service provider over a designated period of time; otherwise the provider would be automatically dropped from the list.

22. January 26, 1999, telephone interview by Nazanin Samari with Kimberley Hubbard, executive director, Day Care Advocates of Milwaukee.

23. Ellen Kisker, Sandra L. Hofferth, Deborah A. Phillips, and Elizabeth Farquhar, *A Profile of Child Care Settings: Early Education and Care in 1990*, vol. 1 (Princeton, N.J.: Mathematica Policy Research, 1991), p. 7.

24. (1) A saturation work requirement that created a large market for child care, (2) tiered child-care vouchers that encouraged the entry of informal providers in the market, and (3) a co-payment scheme that made parents price-sensitive shoppers and that gave providers an incentive to compete for clients.

25. HHS, *States' Child Care Certificate Systems*, p. ii.

26. Lynne M. Casper, *Who's Minding Our Preschoolers?*, Current Population Report P70-62 (Census Bureau, November 1997), table 6.

27. Ellen Kisker and Rebecca Maynard, "Quality, Cost, and Parental Choice of Child Care," in David Blau, ed., *The Economics of Child Care* (New York: Russell Sage Foundation, 1991), p. 130.

28. Ellen Kisker, Rebecca Maynard, Anne Gordon, and Margaret Strain, *The Child Care Challenge: What Parents Need and What Is Available in Three Metropolitan Areas, Executive Summary* (Princeton, N.J.: Mathematica Policy Research, 1989), p. 17.

29. Sandra L. Hofferth, April Brayfield, Sharon Deich, and Pamela Holcomb, *National Child Care Survey, 1990* (Urban Institute, 1991), pp. 231–34.

30. David M. Blau and Naci H. Mocan, "The Supply of Quality in Child Care Centers," Working Paper 7225 (Cambridge, Mass.: National Bureau of Economic Research, April 1999), p. 21, n. 19.

31. See, for example, K. Alison Clarke-Stewart, "Predicting Child Development from Child Care Forms and Features: The Chicago Study," in Deborah A. Phillips, ed., *Quality in Child Care: What Does the Research Tell Us?* (Washington, D.C.: National Association for the Education of Young Children, 1987) (no correlation for staff-to-child ratios or staff training in child development; small but statistically significant correlation between group size and some measures of cognitive development); Carollee Howes, "Quality Indicators in Infant and Toddler Child Care: The Los Angeles Study," in Phillips, ed., *Quality in Child Care: What Does the Research Tell Us?* (small correlation between staff-to-child ratios, low teacher turnover, staff training in child development, and some measures of social development; no correlation for others); T. M. Field, "Preschool Play: Effects of Teacher/Child Ratios and Organization of Classroom Space," *Child Study Journal*, vol. 10 (1980) (no correlation between staff-to-child ratios and social development); Hillel Goelman and Alan Pence, "Effects of Child Care, Family, and Individual Characteristics on Children's Language Development: The Victoria Day Care Research Project," in Phillips, ed., *Quality in Child Care: What Does the Research Tell Us?* (no statistical significance for centers for staff training in child development, a small but statistically significant correlation in family day-care homes); Susan Kontos and Richard Fiene, "Child Care Quality, Compliance with Regulations, and Children's Development: The Pennsylvania Study," in Phillips, ed., *Quality in Child Care: What Does the Research Tell Us?* (no correlation between staff turnover, staff-to-child ratios, group size, or teacher training and child development); Deborah A. Phillips, Sandra Scarr, and Kathleen McCartney, "Dimensions and Effects of Child Care Quality: The Bermuda Study," in Phillips, ed., *Quality in Child Care: What Does the Research Tell Us?* (no correlation between staff training in child development and children's cognitive development; small correlation between staff-to-child ratios and children's cognitive development); J. Travers and B. D. Goodson, *Research Results of the National Day Care Study* (Cambridge, Mass.: Abt Associates, 1980) (no correlation for staff-to-child ratios and teacher education, small but statistically significant correlation for group size and specialized training in child development).

32. Ron Haskins, "Reform of Federal Child Care Programs," December 1996, p. 10 (paper presented at Day Care and Early Childhood Programs under Welfare Reform conference at the American Enterprise Institute, Washington, D.C., March 24–25, 1997).

33. K. E. Bolger and Sandra Scarr, "Not So Far from Home: How Family Characteristics Predict Child Care Quality," *Early Development and Parenting*, vol. 4, no. 3 (1995); Haskins, "Reform of Federal Child Care Programs"; C. Howes and M. Olenick, "Family and Child Care Influences on Toddler's Compliance," *Child Development*, vol. 57, no. 1 (February 1986); Sandra Scarr, "Child Care Research, Social Values, and Public Policy," paper presented at the state meeting of the American Academy of Arts and Sciences, Cambridge, Mass., April 10, 1996.

34. Ellen Kisker and Rebecca Maynard, "Quality, Cost, and Parental Choice of Child Care," p. 129.

35. Sandra Scarr, "Child Care Research, Social Values, and Public Policy."

36. For example, the Urban Institute's National Child Care Survey 1990, based on a nationally representative sample of families with children under age thirteen, found that the hourly fee for regulated family day care was $1.64 an

hour, compared to $1.48 an hour for nonregulated family day care. Barbara Willer and others, *The Demand and Supply of Child Care in 1990* (Washington, D.C.: National Association for the Education of Young Children, 1991), p. 30.

37. William T. Gormley Jr., "Regulating Mister Rogers' Neighborhood: The Dilemmas of Day Care Regulation," *Brookings Review* (Fall 1990), p. 25.

38. Ibid., p. 24.

39. William T. Gormley, *Everybody's Children: Child Care as a Public Problem* (Brookings, 1995), p. 103–104.

40. 22 June, 1998, telephone interview by Nazanin Samari with David McCarley, director, Child-Care Subsidy Program, Alabama Department of Human Resources, Welfare Reform Division; and Nancy Dierker, Division of Child Care, Colorado Department of Human Services.

41. June 22, 1998, telephone interview by Nazanin Samari with Cathie Pappas, block grant administrator for child care, Utah.

42. Department of Health and Human Services, Administration for Children and Families, *Child Care and Development Fund, Final Rule* (July 24, 1998).

43. June 22, 1998, telephone interview by Nazanin Samari with McCarley, Palermino, Short, and Allen.

44. See, for example, Robert A. Robinson, General Accounting Office, "Food Assistance: Reducing Food Stamp Overpayments and Trafficking," testimony before the House Subcommittee on Department Operations, Nutrition, and Foreign Agriculture Committee on Agriculture, 105 Cong., 1 sess., (Government Printing Office, October 30, 1997), p. 3; Theodore Macaluso, *The Extent of Trafficking in the Food Stamp Program* (Department of Agriculture, August 1995).

45. "Helping Families Work—Alternatives to the Child Care Disregard," *Working for Change* (San Francisco: The Child Care Law Center, August 1994), pp. 3–5.

46. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, Division of Performance Measurement, *Characteristics and Financial Circumstances of AFDC Recipients: Fiscal Year 1995* (1995), table 39.

47. September 15, 1998, telephone interview by Nazanin Samari with Darryl W. Kehrer, Department of Veterans Affairs. For more information, see generally Michael J. Bennett, *When Dreams Came True: The GI Bill and the Making of Modern America* (Brassey's, 1996). To receive the voucher, eligible service members and veterans must choose an institution and certify their enrollment. Students can receive their benefits either by a check that is issued to them directly or by the request that the benefit be deposited directly into their checking or savings account. (Department of Veterans Affairs home page, http://www.va.gov/benefits/Education/benefits.htm [September 9, 1998].)

48. John C. Weicher, "The Voucher/Production Debate," in Denise DiPasquale and Langley C. Keyes, eds., *Building Foundations: Housing and Federal Policy* (University of Pennsylvania Press, 1990), p. 266; April 14, 1998, written communication to Nazanin Samari from John Weicher: "Actual program outcomes show that about 24% of voucher recipients rent units for less than 95% of the Fair Market Rent [FMR]. 19% rent units for 95% to 100% of the FMR. The others pay more than the FMR, paying the difference out of their own pocket. That's another distinctive feature of the voucher: They can do that."

49. John Hood, *Solving the Medicaid Puzzle: Strategies for State Entitlement Reform* (Los Angeles: Reason Public Policy Institute, October 1997), p. 29.

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