



DIW DCynopsis

Real, Clear Economics: A Newsletter from DIW DC

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Cutting-Edge Research on the Economics of Risky Behaviors Ignites New Annual Meeting in Washington



DIW DC Executive Director Amelie Constant, IZA Director Klaus F. Zimmermann, Georgia State University Professor Erdal Tekin

Risky behaviors touch individuals and families alike and go beyond race, gender and age. They affect the realm of economics, education, health, sociology, political science, psychology, law, security, criminality and police enforcement. What causes individuals to engage in risky behavior and what are the risk factors for risky behavior? Is it all in the brain - are people hardwired for risky behavior? What are the roles of culture, ethnicity, adverse

childhood experiences or socio-economic status? What kind of disincentives would discourage individuals from risky behavior? What are the implications of risky behavior on other outcomes like education, marriage and employment? Can risky behavior be managed or channeled to a positive outcome?

The First Annual Meeting on the Economics of Risky Behaviors (<http://www.iza.org/link/riskonomics>) managed to shed light onto some of these questions. Co-organized by DIW DC Executive Director, Amelie F. Constant (IZA Deputy Program Director in Migration and George Washington University), and IZA research fellow, Erdal Tekin (Andrew Young School - Georgia State University) and with the financial support of DIW DC, GSU and IZA, the meeting advanced cutting-edge research on the economics



of risky behaviors and attracted an international audience of leading scientists. Sixteen papers were chosen out of the almost one hundred submissions. The three day meeting took place March 20-22, 2009 in Washington, DC.

Starting with a session on risky behaviors related to children, Keith Finlay (Tulane University) addressed the question of whether children of single mothers who have never been married show lower levels of academic achievement than others. As illustrated in the example of single mothers with incarcerated partners, Finlay shows that academic achievement is not negatively affected when a child is raised by a single mother; in fact, Hispanic children of never-married mothers tend to do better than their peers. Kristiina Huttunen (Labour Institute for Economic Research) presented her research on the rehabilitative effects of alternative criminal sanctions on recidivism, education and employment of convicted adolescents. Using data from a juvenile punishment experiment that comprised a rehabilitative program in seven municipalities in Finland, she finds that alternative juvenile punishment did not have a significant effect on the probability to commit a crime in the future, albeit it clearly increased the employability of young individuals.



Keynote speaker Prof. Alfred Blumstein

Renowned criminologist Alfred Blumstein (Carnegie Mellon Heinz College) gave the conference's keynote speech entitled "Risky Behavior in Crime and the Criminal Justice System." He discussed national crime trends over the last 20 years and the particularly high incarceration rates in the US. In his compelling presentation, Dr. Blumstein argued that incarceration does not incapacitate drug trade as long as there are enough replacements available for incarcerated drug dealers. Showing the decreasing average age for convicted drug dealers, he claimed that incarcerated drug dealers were replaced by ever younger cohorts of criminals, thus rendering incarceration ineffective for crime prevention.

David E. Marcotte (University of Maryland) opened the session on Drugs, Pharmaceuticals, Crime and Employment. He asked whether there is a relationship between the steep drop in crime rates in the US in the 1990s and the rates of prescriptions

of two main categories of psychotropic drugs – antidepressants and stimulants. He shows that increased prescriptions for mental illness, in particular antidepressants, are associated with a decrease in violent crime, especially in the categories of robbery and assault. The impact of widespread employer drug testing since the early 1980s on an array of labor market outcomes was discussed by Abigail Wozniak (University of Notre



Conference attendees enjoy the spring sunshine during a conference break



Presenter Prof. David Marcotte

lower employment and found fewer high quality jobs in high-testing industries.

Julio Cáceres-Delpiano (Universidad Carlos III de Madrid) studied the divorce revolution after the marital law reforms in the US and its effect on crime and arrest rates.

His results show that unilateral divorce had a positive impact on violent crime rates, specifically on murder and property crimes. Considering age, he finds that individuals who exhibited an increase in the probability of engaging in crime were those who were already born at the time of the reform.

Aureo de Paula (University of Pennsylvania) started off the session on risky sexual behavior by discussing young males in Malawi, their beliefs on their HIV status and the effect of these beliefs on their sexual behavior. Interestingly, he finds that learning one is HIV negative leads to a lower propensity to engage in extramarital affairs, but

Dame). She finds that while youth employment declined in the testing sector, youth who were already employed had on average better jobs than in the non-testing sector. She also finds that drug testing increased labor force participation and wages of black youth. While it improved access to jobs for less skilled white men, Hispanics showed



has no effect on condom use patterns. Berk Özler (World Bank) looked at the causal effect of conditional cash transfers (CCT) on English literacy, marriage, teen pregnancy rates and sexual activity of adolescent girls in Malawi. He shows that CCT programs

increase school enrollment, delay marriage and reduce sexual activity, especially the likelihood to engage in sex with older men. How the number of sex partners during youth affects the educational attainment of 22-24 year old women was discussed by Joseph Sabia (American University). He finds that

while an increase in the number of sex partners has a significantly negative effect on the educational attainment of girls, it bears no significant effect on boys. Scott Cunningham (Baylor University) examined the relationship between internet diffusion, arrests related to prostitution and the effect of the internet on street prostitution. He finds that the rise

of the internet has a significantly negative effect on prostitution related arrests in the US. New data from an online escort service website reveal that the internet market for prostitutes is growing, drawing female sex workers away from the street prostitution market.



Discussant Prof. Petra Todd

During his distinguished luncheon address “Minimizing the Risk of Prisoners’ Reentry into the Community,” Stefan LoBuglio (Pre-Release and Reentry Services in Montgomery County, MD), gave invaluable insight into pre-release centers. These centers train all kinds of crime committers in real world skills in order to facilitate a productive release to society within one year. The pre-release centers can also help curb probation violation issues by giving privileges as incentives to prisoners who agree to a detailed system of monitoring, such as regular drug and alcohol tests. In his powerful and motivational speech, Dr. LoBuglio emphasized that the current challenges in pre-release and reentry are foremost related to implementation and information issues, notwithstanding the risk prisoners take to use their privileges to escape.

The risky behaviors and adulthood session included Daniel Kuehn (Urban Institute), who explored youth risk behavior and dropping out as potential indirect mechanisms through which income and single parenthood impact youth connectedness to school and the labor market during transition to adulthood. He finds that direct channels dominated the total effect of income on youth connectedness for the full sample, as well as in both race sub-groups. This suggests that the best way to break the vicious cycle of poverty is to address poverty directly, rather than targeting the causal mechanisms through which poverty operates (such as risk behavior or dropping out). Rodrigo Pinto (University of Chicago) concentrated on three factors that can explain risky behavior and schooling decisions: cognitive ability, non-cognitive skills and health. His study shows that schooling level increases with cognitive skills, and as it increases, the probability of becoming a gang member or of



*Special Luncheon Speaker
Dr. Stefan LoBuglio*

having an irresponsible sexual behavior decreases.

Problems of alcohol abuse were tackled by Emily Owens (Cornel University) and Manuela Angelucci (Arizona State University). Exploiting a recent change in the Washington, DC Metro schedule, Owens finds that late-night Metro service caused a large increase in the drinking population (by 8%), but the Metro service expansion reduced the number of drunk drivers in these neighborhoods (by 15%). Studying alcohol abuse and domestic violence in rural Mexico, Angelucci finds that

providing cash payments to impoverished families in exchange for regular school attendance and health clinic visits creates a 15% reduction in alcohol abuse and a 37% decrease in drunken violence among participating households. At the same time, however, the program causes an increase in violence committed by uneducated husbands, especially those married to younger women who are entitled to large transfers.

Horst Entorf (Goethe University Frankfurt) discussed crime in Germany as influenced by police effectiveness, public prosecution and the courts. He finds that the criminal policy of diversion failed, as

increasing shares of dismissals by prosecutors and judges enhance crime rates; crime is significantly deterred by higher clearance and conviction rates, while the effects of indicators representing type (fine, probation, imprisonment) and severity (length of prison sentence, amount of fine) of punishment are often small and insignificant. Aiko van Vuuren (Free University Amsterdam) examined crime in the Netherlands in relation to general attitudes towards Muslim minorities and their impact on house prices in neighborhoods where more than 25% of the people belong to an ethnic minority from a Muslim country. After the Theo van Gogh murder, area



housing prices decreased by about 0.07% per week relative to other neighborhoods in Amsterdam, but the decrease stopped after 10 months. However, the willingness of native Dutch to live in such neighborhoods severely dropped and segregation increased to some extent.

Leslie S. Stratton (Virginia Commonwealth University and IZA) shed light on the US obesity epidemic by linking behavioral risk factors such as eating habits, sleeping and physical activity to measures of obesity. She shows that individuals' behaviors are significantly associated with weight status and differ by gender. Overall, however, results indicate that including measures of behavioral factors does little to alter the estimated impact of the demographic factors.

The meeting, organized in a manner designed to foster interaction and exchange of ideas among the participants in a relaxed atmosphere, also included some special social events, such as a reception at the DIW DC headquarters and dinner at Foco de Chão. The honored dinner speaker was DIW DC Chairman Klaus F. Zimmermann, who gave

a witty and timely talk relating risk behavior to trust, forecasting, the financial crisis and the wealth of nations. Two strategies to deal with a risky environment are defensive pessimism (reducing expectations to be prepared for the worst outcome) and strategic optimism (setting high expectations and generating forces that improve the likelihood of success), he said. The financial market crisis and the great recession have demonstrated that we need to better understand the psychology of economics. "Our exciting conference here has shown to me that there are many fascinating and promising attempts to model and analyze risky behavior that can be generalized to attack these problems," said Zimmermann.

In the current crisis we have to rely on those of us who have the option to act as strategic optimists and concentrate on the potential positive outcomes. This will set high expectations and keep possibilities open for innovations, investment and high consumption.

Co-organizers Amelie F. Constant and Erdal Tekin thanked the participants and look forward to hosting the Second Annual Meeting on the Economics of Risky Behaviors in March 2010 in Atlanta, Georgia. ■



Honored Speaker Klaus F. Zimmermann sets off a lively dinnertime discussion

Facing the Global Economic Crisis: The German Perspective



DIW DC Chairman Zimmermann and Hudson Institute Senior Fellow Furchtgott-Roth

Fifty years after the “Deutsches Wirtschaftswunder” and twenty years after the fall of the Berlin Wall, Germany’s economy, the largest in Europe, has been hit hard by the global downturn. World demand for well-made, but expensive German exports is declining and forecasters expect to see Germany’s economy contract five percent in 2009 and stagnate in 2010. To counteract these problems, the German government has approved a €52 billion stimulus plan and is attempting to structurally reform the labor market and the banking system, as well as put measures into place that encourage entrepreneurship. DIW DC Chairman, Professor Dr. Klaus F. Zimmermann, discussed these developments at a recent luncheon seminar at the Hudson Institute.

According to Chairman Zimmermann, the global economic crisis has its origins in many factors: insufficient regulation of the financial markets; improper incentives in the finance sector; the Federal Reserve’s establishment of low interest

rates and even (for a time period) negative real interest rates; the bursting of the housing bubble (in the U.S., the U.K. and Spain, but not Germany); overconsumption due to wealth illusions; worldwide over-capacity in sectors like the automobile industry; the rapid spread of information; and a synchronized global decline in trade, especially investment goods.

What can be done? World governments should regulate the financial markets, says Zimmermann, and free banks from “toxic assets” (create bad banks and recapitalize banks) so they can begin to rebuild. At the labor market level, a nice provision for staving off

unemployment, increasing labor force participation and earnings, as well as furthering education and training, is the “short-term working allowance” (*Kurzarbeitergeld*). Governments should also develop stimulus packages to soften the recession. Germany suffers from an imported recession due to diminished export of investment goods and a decline in German investment— problems that are difficult for the German government to solve at a merely national level. Zimmermann called for greater international coordination in resolving the crisis and condemned the recent rise of “hidden protectionism.”

Germany has enacted two separate stimulus packages to date. The first, dating from December 2008, called for an €8 billion stimulus in 2009 and an €11 billion stimulus in 2010. The funds will be used to improve infrastructure and extensively redevelop federal buildings; increase support of innovative development programs, especially for small and medium-sized enterprises; reduce vehicle

taxes on environmentally-friendly cars; and improve conditions of short-time employment. The second stimulus package, dating from February 2009, calls for a total of €52 billion to be spent over two years (2009 and 2010). The funds will be used to reduce income tax; provide a one-off child benefit payment of €100 for 2009; increase social transfers for certain children; improve depreciation calculation requirements for businesses; provide government subsidies on the sale of new cars (€3.5bn); create special credit programs for small and medium-sized businesses; increase availability of export credit guarantees; and expand government investment by €30 billion for 2009 and 2010, especially in the education sector.

Expenditure for the stimulus packages in 2009 and 2010 will come to approximately €35 billion per annum, or 1.4% of German GDP, while the effect of automatic stabilizers in 2009 is estimated at approximately €25 billion or 1.0% of GDP.

Combined, the economic stimulus packages and automatic stabilizers in Germany are expected to total 2.4% of Germany's 2009 GDP. For comparison, Germany's total budget deficit is expected to reach €78 billion in 2009 and €100 billion in 2010.

The economic crisis has created new challenges for German politicians, who are now battling the

challenges of excessive national debt, inflation and international policy coordination. Fueling the fire are Germany's upcoming federal elections on September 27, which could profoundly effect how Germany weathers the economic crisis. Currently ruled by a grand coalition, if Germany's center-right party, the Christian Democratic Union (CDU), or center-left party, the Social Democratic Party (SPD), gain more votes, they might be able to form a conservative or liberal coalition with favored smaller parties, creating a government that might have a more polarized reaction to the crisis.

Zimmermann calls for a continuation of reform policy, promoting increased globalization, labor market reforms and human capital formation as the keys to seeing Germany, and the world, out of the global economic crisis. Instead of "Deutschland über alles," the best tools to end the crisis, he says, are international coordination and cooperation.

Co-organized by DIW DC, the luncheon seminar was moderated by Hudson Institute Center for Employment Policy Director and Senior Fellow Diana Furchtgott-Roth. It was attended by high-profile community members from local universities, embassies, research institutes and the World Bank. ■



World Bank Executive Director for Germany, Dr. Michael Hofmann, asks a question, while Professor Karin Bonding (University of Virginia) and German Embassy Economics Minister, Matthias Sonn, listen in.

Economic Indicators

Trends in Selected Economic Indicators

	2007	2008	2009*
Oil Price (USD/Barrel)	72	93	45
Exchange Rate (USD/Euro)	1.37	1.47	1.40
World Trade (%)	8.0	2.7	-9.5
World GDP (%)	4.0	2.2	-2.2
European Central Bank Base Rate (%)	3.85	3.85	1.25
U.S. Federal Reserve Base Rate (%)	5.05	1.8	< 0.25

While petroleum prices fell to a comfortable level in the first trimester of 2009, world trade reached an alarming negative percent and the world GDP signals a critical negative growth.

Sources: German Federal Statistical Office, Global Inside, DIW calculations.

Growth Rates of Real GDP around the World

Change from preceding year

	2007	2008	2009*
Euro Zone	2.7	0.7	-3.0
Germany	2.5	1.3	-4.9
UK	3.0	0.7	-3.5
USA	2.0	1.1	-3.7
Japan	2.4	-0.7	-6.7
Russia	8.1	5.6	-2.5
China	13.0	9.0	5.7
India	9.0	6.0	4.3

While GDP growth rates were already shrinking considerably in 2008, they were positive overall and/or hovering around zero. In 2009, with the exception of China and India, all major economies are experiencing negative growth; Japan is hit the hardest.

Sources: German Federal Statistical Office, Global Inside, DIW calculations.

*based on DIW projections and calculated April 2009

DIW DC Participates in University Career Fairs

It was late spring, but it was back-to-school time for DIW DC. Eager to recruit new talent and strengthen its relationship to area universities, DIW DC participated in highly advertised career fairs at George Washington and American universities.



First was Opportunity Knocks, a career and information fair for graduate students and alumni of George Washington University's Elliott School of International Affairs. Hosted annually in early February, Opportunity Knocks typically attracts 300-350 students and alumni interested in full-time, part-time and internship positions. Many of the students hold multiple degrees and are skilled in research and writing, economics and statistics, political analysis, foreign languages and cross-cultural communications. The DIW DC booth distributed brochures, newsletters and annual reports and answered student questions about the organization. Graduate students in economics and international relations were particularly interested in the Institute.

In March, DIW DC went recruiting again, this time at American University. The AU Spring 2009 Job & Internship Fair attracted more than 800 undergraduates, graduate students and alumni from American University's five schools: the College of Arts & Sciences, the Kogod School of Business, the School of Communication, the School of International Service and the School of Public Affairs. The DIW DC booth was a popular destination, especially from undergraduates in the social sciences.



From both fairs, DIW DC was able to find several outstanding interns for its summer 2009 internship program and some part-time graduate research assistants. DIW DC is looking forward to working closely with these talented students, and hopes to expand its recruiting relationship with local universities in the coming years. ■

Recent DIW DC Event Participation

Consistent with its mission to produce original economic research and to disseminate the Institute's knowledge to the scientific community, the political arena and the general public, DIW DC's staff frequently participates in scientific events and high level meetings, either by organizing sessions, chairing sessions, presenting research, discussing papers and/or having an exhibition booth. DIW DC is represented at the annual meetings of all major international economic associations. Selected events from Winter/Spring 2009 include:

- American Economic Association Annual Conference, San Francisco, CA
- Migration Summit of the Migration Policy Institute, Athens, Greece
- United Nations Human Development Migration Meeting, Princeton, NJ
- G8+5 Academies of Science Meeting, Rome, Italy
- Voice of America Radio Interview, Washington, DC
- Weekly Lecture Series, German School of Washington, Potomac, MD
- "Labor Market Mobility: American Movers vs. European Stayers," GMF, OSA & DOL, Washington, DC
- "The First 100 Days" Bertelsmann Conference, Washington, DC
- "Highly Skilled Immigration in a Globalized Labor Market," American Enterprise Institute, Washington, DC
- German Marshal Fund Transatlantic Academy Meeting, Washington, DC
- Population Association of America Annual Meeting, Detroit, MI

DIW DC Expands Graduate Center Curriculum with Classes, Internships and Seminars in DC



DIW DC Executive Director Constant (standing, left) assists DIW students (L-R) Weinhardt, Wald, Zaklan, Muhumuza, Moll, Pagel, Fiedler, Harasser, Bremus, Groba, Nieswand and Hagedorn with an economic problem.

For the third year running, students of the DIW Berlin Graduate Center of Economic and Social Research spent a semester at DIW DC as part of their studies (http://www.diw.de/english/graduate_center/77795.html). The three-month program (usually January to April), involves two months of rigorous graduate courses at the DIW DC office and a one month internship at leading American, international or governmental institutions.

Among the institutions hosting DIW student internships this year were the World Bank, the International Monetary Fund, the Center for Strategic International Studies, the Federal Energy Regulatory Commission, the Bureau of Labor Statistics, the International Food Policy Research Institute, the Tower Center in DC and APSA, the Urban Institute, George Washington University and

the University of Maryland - College Park. During their month of internships, the students learn the tools of trade by assisting their mentors on assigned projects.

In January, students attended a month-long intensive course on economic policy. Dr. Richard O'Neill (Chief Economic Advisor of the Federal Energy Regulatory Commission) taught the class with emphasis on antitrust, regulation and market liberalization, providing students with the tools to think critically about regulatory policy and problems. This was followed by a month of internships (February) and a return to the classroom in March for an advanced macroeconomics course. Dynamic macroeconomic theory was taught by Professor Dirk Krueger (University of Pennsylvania). All classes met in the DIW DC office and were conducted in English, as the GC is an international program.

Students also participated in various DIW DC events. During a round of job interview talks at DIW DC in January, students attended all fourteen presentations and were given the opportunity to interact with the candidates, learning not only about the latest research and newest estimation techniques, but also how other graduate students behave during job interviews.

As part of the DIW DC lecture series “Distinguished Scientists and Their Stories,” students were treated to career advice from prominent economists, sociologists, professionals and high-profile policymakers, who provided students with priceless advice and networking contacts to improve their career prospects. The 2009 lecturers included Mr. Bernhard Welschke, Representatives of German Industry and Trade; Dr. Christoph Schemionek, Representatives of German Industry and Trade; Prof. Francis Vella, Ph.D., Georgetown University; Mr. Howard Rosen, Peterson Institute for International Economics; Prof. Spyros Konstantopoulos, Ph.D., Boston College; Mr. Dean Baker, Ph.D., Center for Economic and Policy Research; Ms. Rebecca Blank, Ph.D., Senior Fellow, Brookings Institution; Mr. Martin Bodenstern, Ph.D., Federal Reserve; Ms. Diana Furchtgott-Roth, Hudson Institute; Prof. Dr. Frauke Kreuter, University of Maryland; Prof. Robert Foust, George Washington University; Prof. Dr. Klaus F. Zimmermann, DIW Berlin, IZA; Mr. Wolfgang Jakubek, Deutsche Telekom; Ms. Julia Lane, Ph.D., National Science Foundation; and Mr. Wolfgang



Lecturer Wolfgang Jakubek (center) with DIW students Weinhardt (left) and Hagedorn (right)). Mr. Jakubek is Managing Director of Deutsche Telekom.

Pordzik, DHL Americas.

The doctoral students also attended the “First Annual Meeting on the Economics of Risky Behaviors,” a three-day conference sponsored by DIW DC, Georgia State University and IZA (please see page 1 for more information). The students experienced the organization of a conference from within and had the invaluable opportunity to talk with top-notch researchers in the field. Lastly, they attended many public think tanks lectures, university seminars and foundation events.

The Berlin transplants also enjoyed all that Washington has to offer, touring the U.S. Capitol building and senator’s offices on Capitol Hill and attending congressional hearings in the House of Representatives and the Senate. A special treat this year, the students were also present at the momentous presidential inauguration in January, experiencing democracy and change firsthand. The students also participated in other cultural events around Washington.

DIW DC wishes the doctoral residents the best of luck as they return to Germany for their second year in the program. Viel Erfolg! ■



Rebecca Blank (left) of the Brookings Institution describes her career path to students (L-R) Wald, Fiedler and Bremus during a recent DIW DC lecture.

Guillermina Jasso: A Profile



DIW DC is proud to welcome its newest Board of Directors member, Dr. Guillermina Jasso. Dr. Jasso is Silver Professor and Professor of Sociology at New York University. Her Ph.D. is from Johns Hopkins University. She was the founding director of the Methods Workshop at New York University (1991-1997) and the founding director of the Theory Workshop at the University of Iowa (1988-1991), as well as a co-founder of the Life Course Center at the University of Minnesota. She served as Special Assistant to the Director of the U.S. Immigration and Naturalization Service (1977-1979) and as Director of Research for the U.S. Select Commission on Immigration and Refugee Policy (1979-1980).

Professor Jasso's major research interests are basic sociobehavioral theory, distributive justice, status, international migration, mathematical methods for theory building, and factorial survey methods for empirical analysis. She has published numerous articles in scholarly journals on these topics. Currently she is a Principal Investigator of the New

Immigrant Survey, the first national longitudinal survey of immigrants in the United States.

Professor Jasso was elected to the Johns Hopkins Society of Scholars and to the Sociological Research Association, and was elected a Fellow of the American Association for the Advancement of Science. She was a Fellow at the Center for Advanced Study in the Behavioral Sciences (1999-2000), is a Research Associate at the Center for Public Policy at the University of Houston, a Fellow at the Center for the Study of Poverty and Inequality at Stanford University, and a Research Fellow of IZA.

Professor Jasso has served on many advisory boards, including panels advising the U.S. National Science Foundation, the U.S. National Institutes of Health, and the International Institute for Applied Systems Analysis, and currently serves on the Advisory Committee for the Social, Behavioral and Economic Sciences (SBE) Directorate, U. S. National Science Foundation, the Scientific Advisory Board of DIW Berlin, and the U.S. Census Advisory Committee of Professional Associations.

She was a member of the U.S. National Academy of Sciences' Panel on the Demographic and Economic Consequences of Immigration, the Core Research Group of the Binational Study of Migration Between Mexico and the United States, and the U.S. National Academy of Sciences' Committee on Redesign of the U.S. Naturalization Test. She has served as Deputy Editor of *American Sociological Review*. She has also served as Chair of four Sections of the American Sociological Association, the Theory Section, the Rationality and Society Section, the International Migration Section and the Social Psychology Section.

DIW DC looks forward to working with Dr. Jasso and welcomes her contributions to the Institute. ■

Child Care Subsidies and America's Children

Professor Erdal Tekin examines the effect of care subsidies on child well-being

Child care costs constitute a substantial barrier to the employment of millions of women with young children, especially those with low incomes, in the United States and elsewhere. Child care subsidies are regarded as an effective policy tool to lower these important work-related expenses and facilitate the employment of these women. In fact, a sizeable body of research documents that child care subsidies increase the employment among mothers. As a result, the 1996 U.S. Welfare Reform legislation, which aimed at increasing employment and reducing welfare dependence among low-income population, recognized the importance of child care subsidies. The fragmented child care subsidy system was also reorganized by Congress, consolidating several preexisting subsidy programs into a single block grant called the Child Care and Development Fund (CCDF). Federal and state expenditures for child care assistance were increased substantially, and individual states were given greater flexibility in program design and administration. In fiscal year 2007, states spent approximately \$10 billion on child care subsidies and served 1.7 million children in an average month.

Since most child care subsidies are used to purchase center-based care—which has been found to promote child development in some studies—it is commonly assumed that subsidies should also have positive effects on the well-being of children, while raising employment of their mothers. However, it is unclear a priori whether subsidies are beneficial or detrimental to child outcomes. There are three primary channels through which child care assistance policies can influence child outcomes. First, mothers must be employed to be eligible for such a subsidy, and recent evidence suggests that early maternal employment may not necessarily be associated with improved child developmental outcomes. Second, child care subsidies free up income for parents to spend on

private consumption and goods that would enhance child outcomes. However, the extent to which additional income is spent on private consumption versus child quality depends on the relative size of the income elasticities. Finally, subsidies create strong incentives to purchase non-parental child care. There is evidence to suggest that high-quality center-based care has positive effects on the cognitive development of children, particularly for those from a low income background.

The majority of child care subsidies in the United States, however, place too much emphasis on the employment of parents and too little on the quality of care chosen. Arguably the most important design feature is the principle of “parental choice,”

State child care subsidies serve 1.7 million children in an average month.

in which parents are free to use subsidies to purchase virtually any legally-operating child care provider, including those operating outside states' regulatory regimes. Furthermore, conditioning eligibility for subsidies on employment and

income may create challenges for maintaining stable child care arrangements. In particular, if changes in employment and income status are related to lapses in subsidy receipt, such instability could undermine the child's well-being by severing productive child-teacher relationships and exposing children to comparatively low-quality care during unsubsidized periods. States' reimbursement rates—or the maximum amount a state agency pays a given provider—can also influence quality. If reimbursements are below the federally recommended levels, families may not have access to high-quality care, thereby reducing incentives for providers to make important quality enhancements. In general, the aim of current subsidy policy is to support employment among low-income families, while placing few restrictions on the quality child care.

In a recent research project with colleague Professor Chris Herbst, Professor Erdal Tekin

of Georgia State University studies the largely neglected question of whether child care subsidies have implications for child development.¹ Drawing on data from the Kindergarten Cohort of the Early Childhood Longitudinal Study (ECLS-K), Professor Tekin examines a wide range of outcomes including cognitive, behavioral and psychomotor well-being for children of single mothers. The results from

Child care subsidy receipt in the year before kindergarten leads to negative child outcomes at kindergarten entry.

this study indicate that child care subsidy receipt in the year before kindergarten leads to negative child outcomes at kindergarten entry. In particular, subsidy receipt in the year before kindergarten lowers reading and math test scores, decreases the eagerness to learn and leads to more behavioral problems in the fall of kindergarten. Furthermore, the negative subsidy effects for reading and math test scores persist to the spring of kindergarten, while many of the behavioral effects attenuate. The study also presents descriptive evidence from the ECLS-K, which indicates that the intense exposure to low-quality center care could be responsible for the negative subsidy effects.

In a related study with Professor Herbst, Professor Tekin also examines the relationship between

subsidy receipt and weight outcomes of these children.² Studying childhood obesity is important for a number of reasons. First, obesity rates among children and adolescents increased dramatically over the past three decades in the United States. For example, data from the National Health and Nutrition Examination Survey (NHANES) indicate that, since the mid-1970s, the prevalence of obesity grew from five to 12 percent among children aged two to five years and from seven to 17 percent among children aged six to 11 years. This alarming trend

Subsidy receipt is associated with an increase in BMI and a greater likelihood of being overweight and obese.

generates concern among health care officials because obesity during childhood and adolescence is highly correlated with weight problems throughout adulthood, and obese children are substantially more likely to develop health problems such as high blood pressure and Type 2 diabetes as early as adolescence. Second, obesity among children and teens has been found to be associated with a number of long-term psychological and labor market outcomes ranging from poor self-esteem and depression to discrimination and lower wages. Finally, many of these problems triggered by obesity impose a substantial burden on the health care system. According to one estimate, hospital expenditures related to childhood obesity rose from \$35 million in the late-1980s to \$127 million (in 2001 constant dollars) in the late-1990s.

The growing use of non-parental care has raised awareness among health officials of the critical role that child care settings play in shaping children's eating and activity habits. In particular, given that young children spend considerable time away from their parents, child care providers lay the foundation for food consumption and exercise patterns. Structural and process features of the child care environment can dictate the types of physical activities in which children are engaged (e.g., structured or free-play), the number of hours per day in which children are performing these activities, and whether these activities occur primarily in indoor or outdoor spaces. In addition, menu options in child care settings expose children to a variety of new foods and flavors, which can influence food preferences at home and school. Child care providers can also serve as a powerful bridge to aid parents in making healthy food choices in other contexts.

Despite the role of child care subsidies and arrangements in shaping preschool children's weight outcomes, little empirical work focuses on

1. Herbst, M. Chris and Erdal Tekin. "Child Care Subsidies and Child Development," IZA Discussion Paper, No. 3836, November 2008.

2. Herbst, M. Chris and Erdal Tekin. "Child Care Subsidies, Child Care Arrangements, and Childhood Obesity," Andrew Young School Working Paper, May 2009.

these issues. This recent research is an attempt to fill this gap in the literature. In addition to the standard OLS and fixed effects methods to explore body mass index (BMI) as well as binary indicators of overweight and obesity, Professor Tekin employs quantile regression to address the possibility that subsidy receipt and child care arrangements have heterogeneous effects on children's weight at different points in the BMI distribution. The results suggest that subsidy receipt is associated with an increase in BMI and a greater likelihood of being overweight and obese. This study also lends initial support for the claim that the estimated subsidy effects operate through children's elevated participation in non-parental child care settings. Specifically, the results in the study point to increased enrollments in center-based care as the primary mechanism through which the subsidy effects operate. Children in this type of arrangement have substantially higher BMIs and experience a significantly greater likelihood of being overweight and obese. In light of these results, it is no coincidence that center care is the predominant child care mode among subsidized children. Estimates from the quantile regression models provide evidence of substantial heterogeneity in response to child care subsidy receipt: BMI gains due to subsidized care are dramatically different depending on where children are located in the BMI distribution. Children at the upper end of the distribution experience BMI gains that are greater than the gains among children at the lower end. Once again, our quantile regression results imply that center-based care emerges as a likely candidate to explain the pattern of subsidy effects. These findings are consistent with Professor Tekin's earlier work that finds that subsidized children perform worse on academic and behavioral domains.

These studies point to the necessity of aligning the employment goals established by recent social policy reforms with the goal of ensuring child health and well-being. One way to accomplish this is by decoupling the strong relationship between subsidy receipt and employment, or by giving parents and child care providers strong incentives to make quality investments. Based on the results from

these studies, policy changes directed at increasing the continuity of subsidized care would be beneficial, as would establishing reimbursements at a level high enough to allow parents to choose among high-quality providers in the community. ■

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Studies at Georgia State University. He is also a Research Fellow at the Institute for the Study of Labor (IZA) and a Research Associate at the National Bureau of Economic Research (NBER). His primary areas of research are labor economics, health economics and applied microeconomics.

Within these fields, Tekin has worked on projects related to the economics of risky behavior and the economics of child care and welfare program participation. Some of his work includes projects on the determinants of criminal behavior among youths and adults, the effects of child care subsidies and prices on employment and welfare decisions of parents as well as the children's development, the effect of food stamp benefits on labor market outcomes, the link between child maltreatment and future criminality, the effect of mental health problems on labor market outcomes and the causes and the economic consequences of childhood and adult obesity.

Tekin also serves as the director of the Georgia Administrative Data Project at the Fiscal Research Center at Georgia State University. His research has been funded by, among others, the National Institutes of Health, the Robert Wood Johnson Foundation and the U.S. Administration for Children and Families. His research has been published in journals such as the Review of Economics and Statistics, Journal of Human Resources, Economics Letters and Journal of Law and Economics. Tekin earned his Ph.D. in Economics from the University of North Carolina at Chapel Hill in 2001. ■

Upcoming Events

May 22-23, 2009: Sixth Annual Migration Meeting (AM²), IZA Bonn, Germany
October 2-3, 2009: Fifth Annual Conference on Labor Market Policy Evaluation, Washington, DC
October 21, 2009: German Day on Development, Washington, DC
October 22, 2009: IZA Policy Meeting, Washington, DC
October 22, 2009: IZA Prize Ceremony & Banquet, Washington, DC
October 23-24, 2009: Frontiers in Economics and Happiness Conference, Washington, DC
November 2009: Infraday Conference, Washington, DC
March 2010: Second Annual Meeting on the Economics of Risky Behaviors, Atlanta, GA

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