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**Can policies that promote work among low-income women affect their children's human capital formation?**

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## Context.

Policymakers in many countries have implemented policies that promote work among low-income individuals. Most OECD countries have implemented earned income subsidies; the EITC in the US, Working Families' Tax Credit in the UK, and the Bono al Trabajo de la Mujer in Chile are just a few notable examples. Recognizing that women with young children have many barriers to enter the labor market, child care subsidies have also been widely implemented in many countries. While the primary goal of these policies is to incentivize work, they could have unintended consequences on children if parents substitute time spent with them with time spent in the labor market. Can these policies be harmful for children?

In the paper "Understanding the Effects of Workfare Policies on Child Human Capital" I show in fact that the answer is "no." On the contrary, a combination of work-promoting policies can be highly beneficial for children. In this paper I provide evidence for why this positive effect emerges.

## The study.

This paper studies how a bundle of work-promoting policies positively affected children's human capital accumulation. The context is a low-income neighborhood in Milwaukee. By the mid-90s, the MDRC agency implemented a program called "New Hope." The agency recruited adults near living near the Menomonee River Valley to participate in a program that offered two main benefits: an earnings subsidy and a child care voucher for full-time working individuals. Both subsidies were generous. The earnings subsidy provided a higher subsidy that what residents could have obtained through the EITC. On the other hand, the child care subsidy covered nearly 100% of enrollment fees at registered child care centers. In both cases, the participants must have shown having a full-time job. This policy bundle and the context is particularly interest as a policy laboratory, as many of the elements studied here are commonly implemented in other contexts.

The program, implemented as a randomized controlled trial, had important effects on women's labor supply and child development. For women with small children, I find that participating in New Hope raised labor force participation and income by 12 and 13%. Notably, the program benefited children of participating women: with respect to the baseline mean, New Hope raised measures of

academic performance and classroom behavior by 18 and 14 percentage points, respectively. These large effects contradict views that policies that induce women to join the labor force might hurt children's development.

Universal" in Chile, where legislators are currently debating having an institutional framework of child care subsidies similar to that of New Hope. This paper informs this and other debates on the potential intergenerational implications of work-promoting policies.

What are the mechanisms driving these effects? By developing an econometric model to quantitatively disentangle different potential channels, I find that most of the effects on children are explained by child care choices and policies: in terms of household choices, almost two thirds of the effects of New Hope on children are explained because women, induced by the work incentives, took their children to private child care centers. These private centers were legally registered by the State of Wisconsin, and they probably offered small children with a highly stimulating environment relative to what they could have had at home. This phenomenon explains why New Hope was so successful, not only in raising female labor supply, but also in significantly promoting child development.

### **Policy implications.**

Many countries have implemented combinations of various work-promoting policies, such as the ones analyzed in this study. When women are induced to participate in the labor market thanks to these policies, children's human capital can be affected. This paper shows that the effect on children hinges critically in having affordable, high-quality child care centers. Policymakers should incorporate in the design and evaluations of such policies the potential implications on child human capital. An example is the discussion around "Ley de Sala Cuna