

Systematic Thinking About Subsidies for Child Care (Part 1 of 3)

Part One: Avoiding the Rush to Judgment

C. Eugene Steuerle

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On January 7, President Clinton proposed that an additional \$21.7 billion be made available over five years in the form of direct expenditures and tax subsidies for child care. In typical political fashion, there would be expansion of a wide variety of existing programs and establishment of several new ones. Some direct expenditures would be made in the form of block grants to states, some in expansion of Head Start, some for community development programs, some for new after-school care, some for new state efforts to enforce child care health and safety standards, some for scholarships for students getting credentials in child care, and some for child care research. Of the tax subsidies to be offered, some would be made in the form of increased child care tax credits and some as tax credits for businesses that provide child care, while additional tax relief would come from the nontaxability of the new expenditures and subsidies.

Although these proposals have been hailed and criticized as a significant expansion of government, in point of fact the amount of money is relatively minor in an economy projected to produce over \$40 trillion in total goods and services over the same five years. Divided among children of all ages, the amount of new money would equal less than \$70 per year per child, about enough to buy each of them one ice cream cone per week. By another comparison, the value of the time parents and guardians spend with their children, as opposed to working for pay, is also worth trillions of dollars per year, assuming one can even value it. Whatever the value, it dwarfs the resources that will be provided under these new government programs.

These statistics are not cited to criticize the proposals. The needs of children and of parents are large and in many cases deserve community and government accommodation and sometimes support. The numbers do suggest that if government money is going to be spent—or not spent—on child care, we had best start to sort out the standards and principles under which we proceed. The numbers also reveal quickly that only a small minority of children are likely to be significant beneficiaries of the new programs.

This column represents the first in a series that attempts to think systematically about tax and expenditure policy directed toward child care. Taxes, by the way, cannot be ignored even in the simplest of analyses, since the tax code must provide rules on (1) child care costs incurred as a consequence of working for pay; (2) income, both direct and indirect, produced through child care services; and (3) adjustments in tax burdens according to family size.

In thinking about these issues, it is useful to begin by noting how different groups are liable to lobby on these issues. One difficulty with approaching these issues first from an advocacy standpoint is that it is likely to come to contradictory or at least imbalanced conclusions. Nonetheless, advocates will often appeal to at least one principle, even if indirectly, and, therefore, it is worth paying close attention to their language.

Some advocates will seek money for children almost any way they can get it. For them the size of the pot and not its allocation is most important. Others will emphasize strongly the progressivity of any changes, attempting to direct child care money nearer to the bottom of the income distribution through phaseouts of benefits and higher credit rates at lower income levels. Closely related are those who will seek child care money as a mechanism to further subsidize former welfare recipients who are now required to work to receive other supplementary benefits. Those emphasizing support of welfare recipients often will oppose allocating any significant share of child care allowances to middle-class families as an adjustment for cost of work. Some groups, however, will argue that child care allowances are appropriate for middle-income families, especially when secondary workers first enter a market at low pay.

George Bush at one time tried to deny child care allowances to those who received other benefits such as a share of the earned income tax credit. This was partly in response to "family" groups who argued that any

assistance for paid child care tended to be biased against those who provide child care in the home. These same family groups, however, support child allowances—credits for children that are unrelated to child care—and can be expected to push the president's proposals this year in that direction.

Perhaps I have simplified the arguments that will be made by these advocates, but it now allows us to take a closer look at the principles that may be invoked directly or indirectly when those types of arguments are made. Examined closely, most center around issues of progressivity, encouragement of work, fairness between male and female care providers, measurement of net income from work, and neutrality in the choice of child care providers. Since we already have an extensive core of knowledge about those issues, we can use it to examine more systematically how government child care dollars might best be spent, if at all.

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