

Systematic Thinking About Subsidies for Child Care (Part 2 of 3) Part Two: Principles and Standards

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Document date: February 02, 1998
Released online: February 02, 1998

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Child care has become a hot issue. President Clinton recently elaborated on his proposals to expand a variety of child care programs (see p. 500 of this issue). Not to be outdone, several Republican senators have come forward with some ideas of their own (see p. 501 of this issue). In all cases, the amount of money involved is only moderate. If only a minority of children or families are to be assisted, then, who should they be? What efforts deserve priority and why? Which ones are most likely to help parents raise their children and which ones are liable to distort choices discouraging work or discouraging taking care of one's own kids? Should child care outside the home be favored over child care inside the home, or vice versa? What efforts are likely to produce the most "good" for each dollar spent? When should subsidies for raising children take priority over subsidies for education of children, and when should subsidizing education take priority over subsidizing child care without a formal educational component? When is the tax code an appropriate vehicle for transferring subsidies?

These are difficult questions, and I am not going to suggest that everyone will reach unanimous agreement on the answers. What I will suggest is that without a baseline set of principles and standards—even where they conflict and trade-offs must be made—we are more likely to be taking shots in dark. Let me suggest here what those standards and principles might be.

A first standard, almost a law of nature, is that the family will remain the primary caregiver. Government is not going to replace the family. To make matters more complicated, no amount of formal "pay" is going to cover even a fraction of the effort achieved by individuals who spend time and effort in raising children. The most valuable learning and sharing experiences within formalized and institutional settings cannot really be enforced from outside. Law cannot replace goodwill. It cannot make us into a society of individuals who care for our children. Policy, therefore, should be designed to try to reinforce the basic bonding, parenting, and mentoring efforts that individuals make toward children rather than try to replace them.

A second standard has been applied recently by welfare reform law: where possible, those who receive assistance from society must give something back in return, often through work or education. The goal is less to save money on these programs than it is to avoid some of the negative consequences of dependency. If successful, these efforts will encourage individuals to take more responsibility for their own lives and, through work, to learn by the very process of doing and participating in society's affairs. Not that this standard is without controversy. It conflicts directly with an earlier notion that single parents—a significant portion of the population today receiving assistance—are the best caregivers for their children during the day and, therefore, should be staying home with them.

A third principle is equal treatment of equals or equal justice under the law. If you and I are in equal circumstances in every respect, then the law should not make a distinction in the subsidies that it offers us or the taxes we are required to pay. Since child care is expensive, this principle causes a number of problems for many programs, as the money is insufficient usually to cover all eligible families. When too little money is chasing too many families, programs typically separate individuals on an arbitrary basis—establishing queues or waiting lists, or assisting mainly those who are "in the know" because they have more informed contacts, friends, or social workers.

A fourth standard allows for some distinction among recipients because it calls for experimentation and diversity. One community might provide a different level of subsidy than another because it thinks it has a better way. Experimentation, however, isn't worth much unless it is repeatable. And if experiments are permanent from the start, they aren't experiments. Thus, if the government allows disparity for the sake of experimentation, then it also must provide a way of changing subsidies to eliminate the unsuccessful

experiment and to repeat the successful one. Also, one family should not have permanent access to a subsidy to which others are equally entitled simply because it happened to get in the queue first. This is the way that housing subsidies and public housing often work. Thus, experimentation and diversity cannot be an ex post excuse or apology for violating the standard of equal treatment of equals. With a true experiment, there must be ways of moving beyond the experiment.

All other things being equal, policies toward child care should also be neutral toward care in the home versus care outside the home. What makes this issue especially difficult is that all production in the home is effectively tax-exempt. It is cheaper, at least tax-wise, to paint one's own house rather than hire a painter who has to pay taxes on his pay. When a person goes to work and pays for child care, therefore, the net income from making the effort will be reduced by child care costs.

Suppose, for instance, that a person works for \$5,000 and pays \$5,000 in child care. Should she pay taxes on the additional \$5,000 of pay or on the net income of \$0? If the value of child care inside and outside the home is the same—for instance, there is not additional housekeeping or education provided by the paid provider then the person is in a neutral position only if the cost of child care is deductible.

Current law sometimes provides subsidy rates above the taxpayer's tax rate and sometimes below the taxpayer's tax rate. Some expenditure subsidies cover 100 percent of cost. The child care tax credit already provides a subsidy rate well above the marginal tax rate of 15 percent faced by most taxpayers, although the differential is smaller if one counts a portion of social security tax. On the other hand, many taxpayers face a subsidy rate well below their own tax rate.

From this analytic perspective, the law sets differential incentives by income class. For low-income families, it often subsidizes child care outside the home relative to child care in the home. For higher-income families, the case is usually just the opposite: it discourages child care outside the home relative to child care in the home. In other words, America's laws say that primary caregivers (usually mothers) who are rich shouldn't work outside the home; those who are poor shouldn't stay home.

A sixth standard or principle often applied to taxation is progressivity. Under this principle, those with less income have less ability to pay tax and more need for assistance. It is partly the attempt to apply progressivity to provision after provision of the tax and welfare systems that creates the incentives for child care inside or outside the home that differ by income class.

Finally, budget standards imply that any expenditure beyond what is necessary to measure the tax base correctly should compete equally with other outlays. The tax system should be used to deliver a subsidy only if it is the best administrative system, but, even then, a subsidy beyond an appropriate measure of the tax base probably should be counted as a positive outlay rather than a negative tax.

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