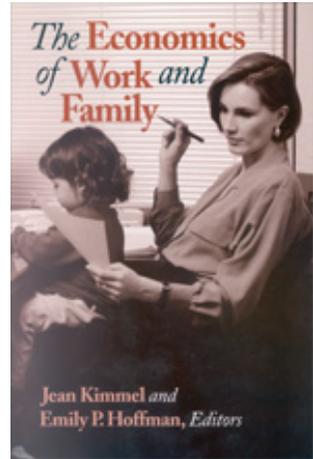

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Federal Child Care Policy: An Evaluation and Proposal for Reform

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INTRODUCTION

Child care in the United States is a problem. This is the message of many newspaper and magazine articles, conferences, and reports by think tanks and government agencies. Depending on whom you ask, the child care problem endangers the well-being of children, causes financial hardship and stress for families, makes it nearly impossible for low-income families to work their way off welfare, causes substantial productivity losses to employers, and prevents many mothers from maintaining productive careers in the labor force. The federal government plays a major role in the U.S. child care market, providing subsidies worth almost \$20 billion.¹ Are these subsidies well spent? Do they help accomplish the goals of federal child care policy? What are the goals of federal child care policy, and how do these goals relate to the nature of the child care problem in the United States? This chapter addresses these questions from an economics perspective. The goal of the chapter is to reach some conclusions about whether child care policy is sensible, and if not, how it could be improved.

An economics perspective on this issue is helpful because it focuses attention on the rationale for government intervention in the child care market. The two main arguments that have been made in support of government intervention in child care are based on attaining economic self-sufficiency and correcting child care market imperfections that result from imperfect information and externalities. If we believe that the child care market is inefficient as a result of some kind

of market failure, we can then examine whether government policy is directed appropriately at the cause of the market failure. The key is to identify the source of the market failure. Child care costs as a barrier to economic independence for low-income people suggests a different approach to child care policy than market failure related to the quality of child care. The crucial issue in evaluating whether child care policy is sensible is determining which, if either, of these problems are important in practice in the child care market. This chapter discusses and evaluates the evidence on child care costs as a barrier to economic independence and the evidence on market failure in child care.

The second section of the chapter describes the main features of current federal child care subsidy policy. The next section then discusses in more detail the possible sources of market failure and evaluates the available evidence on them. In the fourth section, I propose a set of principles that I believe should guide child care policy. These principles are based in part on the evidence regarding the importance of alternative sources of child care market failure, but they are also based on my own views about what the goals of child care policy should be. This is inevitably subjective, and I try to be clear about the views I have on the topic. The fifth section evaluates existing child care policy in light of the guiding principles and finds that there is much room for improvement. Next I propose a new set of child care policies that are more consistent with the principles that I believe should guide child care policy. I discuss the rationale for the new proposal and present some illustrative calculations of its cost. The final section contains a summary and conclusions.

U.S. CHILD CARE SUBSIDY POLICY

Child care subsidies help parents pay their expenses for nonparental child care and preschool, and help child care providers pay the cost of providing such care. Some of the subsidy programs are restricted to employment-related child care expenses, while others have no employment requirement. The goals and structure of employment-related child care subsidy programs are quite different from those of early education preschool programs. Society faces a trade-off in child care pol-

icy between the goals of improving child well-being and increasing the net return from employment for parents of young children. Thus it is important to interpret child care subsidies broadly and include in the discussion all programs that help defray expenses for the regular care of young children by adults other than their parents. A subsidy for work-related child care expenses may affect the quality of child care purchased, whether or not this is a goal of the subsidy program, and a subsidy for an early education program intended to improve child development affects the work incentives of the parents, whether by design or not.

The goals and main provisions of the major U.S. child care and early education subsidy programs are summarized in Table 1.² The first two programs listed are tax subsidies. The exclusion from taxable income of employer-provided dependent care expenses (EEDPCE) is a fringe benefit offered by some firms to their employees in one of two forms. First, if the firm provides child care benefits to its employees in the form of subsidized on-site or near-site facilities or direct reimbursement of employee expenses, such benefits are treated as a form of non-taxable compensation, such as health insurance. Only 4 percent of employees in private establishments had such benefits in 1995–1996 (U.S. Department of Labor 1998). Second, if the firm provides its employees with the option of a flexible spending or reimbursement account (“cafeteria plan”) that can be used for child care expenses, the employee contribution to such an account is treated as nontaxable compensation. Twenty percent of private sector workers in 1995–1996 worked for a company that had established a reimbursement account to cover child care expenses.

The Dependent Care Tax Credit (DCTC) allows taxpayers with an adjusted gross income (AGI) of less than \$10,000 to receive a tax credit of 30 percent for child care expenses of up to \$4,800 per year for two or more children (\$2,400 for one child). The subsidy rate declines by one percentage point for each \$2,000 increase in AGI, reaching 20 percent for AGI of \$28,000. The subsidy rate remains constant for an AGI above \$28,000. This subsidy is *means-tested* in the sense that the value of the subsidy declines as income increases. More importantly, however, the credit is not *refundable*, so the amount of credit available to low-income families is relatively small. A nonrefundable credit is limited to the amount of income tax liability; many low-income fami-

Table 1 Summary of the History, Goals, and Provisions of Major Federal Child Care and Early Education Programs

| Program | Dependent Care Tax Credit | Exclusion for Employer-Provided Dependent Care Expenses | Title XX Social Services Block Grant | Child Care and Development Fund | Head Start | Child and Adult Care Food Program ^b | Title I, Part A of the Elementary and Secondary Education Act |
|------------|---|---|---|---|--|--|--|
| Acronym | DCTC | EEPDCE | TXX-CC | CCDF | HS | CCFP | Title I-A |
| Year began | 1954 | 1981 | 1975 ^a | 1996 | 1965 | 1968 | 1965 |
| Goal | Subsidize employment-related dependent care expenses. | Subsidize employment-related dependent care expenses. | Help low-income families achieve self-sufficiency; prevent child neglect. | Help families who recently left welfare for work maintain self-sufficiency. Help families who need child care in order to work and are at-risk of going on welfare if child care is not provided. | Improve the social competence, learning skills, health, and nutrition of low-income children aged 3–5. | Improve nutrition of low-income children. Part of the National School Lunch Act. | Provide programs and services for educationally disadvantaged children (children who are failing or at risk of failing student performance standards). |

| | | | | | | | |
|------------|--|--|---|---|--|---|---|
| Form | Nonrefundable tax credit. | Amounts paid or incurred by an employer for dependent care assistance provided to an employee are excluded from the employee's gross taxable earnings. | Block grant to states that can be used for many social services; 15% of funds on average used for child care. | Block grant. States must meet maintenance of effort and matching requirements for some of the funds. States may transfer up to 30% of their TANF block grant funds into the CCDF. States may also use TANF funds directly for child care, without transferring them to CCDF. | Part-day preschool, health screening, nutrition and social services. | Cash subsidies for meals and snacks in day care centers and family day care homes. | Grants to states based on number of children from low income families and per-pupil education expenditures. |
| Provisions | 30% tax credit on expenses up to \$4,800 for 2 children for AGI ≤ 10K; subsidy rate falls to 20% for AGI > 28K. ^c | Up to \$5,000 per year excludable. Expenses excluded from gross income are not eligible for the DCTC. | Child care must meet state regulatory and licensing standards. | Sliding fee scale, but states may waive fees for families below the poverty line. At least 4% of funds must be spent on quality-improvement and consumer education. Child care must meet state licensing and regulatory standards. Contracts or vouchers. Relative care eligible if provider lives in a separate residence. | Free | Child care must meet state regulatory standards. Must serve mainly low-income children. | A school or local education agency may operate a preschool program. |

(continued)

Table 1 (continued)

| Program | Dependent Care Tax Credit | Exclusion for Employer-Provided Dependent Care Expenses | Title XX Social Services Block Grant | Child Care and Development Fund | Head Start | Child and Adult Care Food Program ^b | Title I, Part A of the Elementary and Secondary Education Act |
|----------------------|---|---|--|---|--|---|---|
| Acronym | DCTC | EEPDC | TXX-CC | CCDF | HS | CCFP | Title I-A |
| Year began | 1954 | 1981 | 1975 ^a | 1996 | 1965 | 1968 | 1965 |
| Eligibility criteria | Both parents (or only parent) employed. | None | States choose income eligibility. Employment required. | Family income no more than 85% of state median income, but states can (and most do) impose a lower income eligibility limit. Children under age 13. Parents must be in work-related activities. | Kids 0–5 (mainly 3–5); 90% of enrollees must be below the poverty line. 10% of slots reserved for disabled children. | Subsidy amount depends on whether income <130% of poverty line; 130–185% of poverty line; or >185% of poverty line. | Target funds to schools with the highest percentage of children from low-income families. |

^a Earlier provisions of the Social Security Act provided federal matching funds to the states for social services.

^b Less than 2% of the funds in the food program go to adult care centers.

^c Beginning in 2003, the maximum credit rate will be 35% for AGI ≤ 15K and the limit on expenses will be \$3,000 for one child and \$6,000 for two or more children.

SOURCE: Committee on Ways and Means (1998) and U.S. Department of Education (1996).

lies have no federal income tax liability and therefore cannot receive any tax credit. Data from the Internal Revenue Service indicate that 27.4 percent of the total amount of tax credit claimed in 1999 went to families with an AGI of less than \$30,000, but almost all of this amount was claimed by families with an AGI between \$15,000 and \$30,000; only 0.8 percent of the total was claimed by families with an AGI less than \$15,000 (Internal Revenue Service 2001, Table 3.3).

In 1996 the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) consolidated four existing employment-related child care subsidy programs for low-income families into a single child care block grant program called the Child Care and Development Fund (CCDF).³ The main goal of the consolidated program is to facilitate the transition of families from welfare to work and to help low-income parents maintain employment. States can use CCDF funds to assist families with income up to 85 percent of state median income (SMI) but are free to use a lower income-eligibility criterion. Parents must be employed, in training, or in school, although some exceptions are permitted. In general, priority for CCDF funds is supposed to be given to families with very low incomes and with children who have special needs. The CCDF also requires that part of the funds be used to assist working poor families who are not currently, recently, or likely future welfare recipients. As part of the general increase in flexibility provided by PRWORA, states are permitted to transfer up to 30 percent of their Temporary Assistance for Needy Families (TANF)⁴ block grant funds to the CCDF to be used for child care, and states can also use TANF funds directly for child care services without transferring the funds to CCDF. States must offer “certificates” (formerly called vouchers) that allow families to purchase care from any provider that meets state regulations and licensing standards or is legally exempt from licensing, including relatives and baby-sitters.

The states have substantial flexibility in designing their CCDF programs, including the income eligibility limit, co-payments by families, and reimbursement rates to providers. Only nine states set income eligibility at the maximum allowed by law, 85 percent of SMI. Seven states set the income eligibility limit at less than 50 percent of SMI. States are permitted to waive fees (co-payments) for families with income below the poverty line, and there is substantial variation among states in use of this provision. Fees are determined in many different

ways, including flat rates, percent of cost, percent of income, and combinations of these. States are required to have sliding scale fee structures, with fees that rise with family income. The amount of the subsidy is supposed to be based on a recent market survey, with the subsidy set to cover the fee charged by the provider at the 75th percentile of the market rate distribution. In practice, many states use out-of-date market surveys or set the subsidy below the 75th percentile (Adams, Schulman, and Ebb 1998, p. 23).

The other main means-tested subsidy program with an employment focus is the Title XX Social Services Block Grant (TXX). This program subsidizes a wide variety of social services and gives states flexibility in how the funds are allocated across the various eligible services. On average, about 15 percent of TXX funds have been spent on child care in recent years. Child care funded by Title XX must meet applicable state standards, and it is often provided through “slots” in centers and family day care homes purchased through grants and contracts with state or local agencies. States choose the income eligibility limit.

The last three programs listed in Table 1, Head Start, the Child Care and Adult Food Program (CCFP), and Title I-A of the Elementary and Secondary Schools Act, are intended to improve child well-being, and these programs therefore have no employment or training requirement for the parents. Head Start provides part-day preschool, along with health, nutrition, and social services, to children from families in poverty. The goal of the program is to improve the social competence, learning skills, health, and nutrition of children. Head Start programs must meet a set of federal standards that are more stringent and child-development-oriented than most state regulations. The CCFP provides subsidies for meals meeting federal nutrition requirements served in licensed day care centers and family day care homes serving low-income children. Subsidy rates depend on family income of the children served, with a maximum income of 185 percent of the poverty level. The goal of Title I-A is to provide services for educationally disadvantaged children who are at risk of failing to meet student performance standards. Most Title I-A funds go to schools serving K-12 students, but state and local education agencies may use such funds to serve preschool aged children as well, in school-based or community-

based programs. Title I-A programs must meet the Head Start standards.

Table 2 summarizes federal and state expenditures on child care subsidies in recent years, and the numbers of children served by the subsidy programs. Assuming that fiscal year (FY) 1999 CCFP expenditures are the same as in FY1997 (in real terms), and that FY1999 real CCDF expenditures are the same as in FY1998, a rough figure for total federal and state expenditure on child care subsidies in FY1999 is \$18 billion. A meaningful total for the number of children cannot be computed. Head Start and the CCDF are the two biggest programs in terms of expenditures, at \$5.5 billion each. Head Start is the best-funded program per child served, with annual expenditures of \$5,759 per child versus \$3,400 per child in the CCDF. The only subsidy programs that are open-ended entitlements are the EEPDCE and DCTC tax subsidies (in terms of number of children served, not expenditures per child). The other programs are capped entitlements, with no obligation to serve all eligible families. It is estimated that the CCDF serves only 15 percent of eligible children (Administration for Children and Families 1999). Head Start is estimated to serve 34 percent of 3- to 5-year-old children in poverty.⁵ No figures are available on the percentage of eligible children served for the other programs.

WHY SUBSIDIZE CHILD CARE?

The two main arguments that have been used in support of government subsidies to child care are based on attaining economic self-sufficiency and correcting child care market imperfections.⁶

Self-Sufficiency

Child care subsidies might help low-income families be economically self-sufficient, which in this context means employed and not enrolled in cash-assistance welfare programs. Self-sufficiency might be considered desirable because it may increase future self-sufficiency by inculcating a work ethic and generating human capital through on-the-job training and experience, and it may therefore save the govern-

Table 2 Federal and State Expenditures and Children Served by Major Federal Child Care Subsidy Programs

| | DCTC ^a | EEPDC ^b | HS ^c | TXX-CC | CCFP | CCDF | Title I-A ^o |
|--|-------------------|--------------------|-----------------|--------------------|--------------------|--------------------|------------------------|
| Federal and state expenditures (billions of constant 1999 dollars) | | | | | | | |
| 2000 | 2.200 | 0.984 | 5.056 | 0.222 ^d | 1.624 ^e | — | — |
| 1999 | — | 0.995 | 4.658 | 0.285 ^e | — | 9.132 ^l | 2.015 |
| 1998 | 2.649 | 0.910 | 4.443 | — | — | 6.540 ^j | — |
| 1997 | 2.464 | 0.862 | 4.132 | 0.384 ^f | 1.582 ^h | 4.535 ^j | — |
| 1996 | 2.663 | 0.823 | 4.223 | 0.374 ^f | 1.678 ^h | — | — |
| 1995 | 2.518 | 0.792 | 3.862 | 0.453 ^f | 1.603 ^h | 3.4 ^k | — |
| Children served (millions) | | | | | | | |
| 2000 | — | — | 0.858 | — | — | — | — |
| 1999 | — | — | 0.826 | — | — | 1.760 ^l | — |
| 1998 | 6.120 | — | 0.822 | — | 2.6 ⁱ | 1.531 ^l | — |
| 1997 | 5.796 | — | 0.794 | — | 2.2 ^l | 1.248 ^m | — |
| 1996 | 6.003 | — | 0.752 | — | 2.4 ^l | — | — |
| 1995 | 5.964 | — | 0.751 | — | 2.3 ^l | 1.445 ⁿ | — |

NOTE: See Table 1 for definitions of the program acronyms. Current dollar expenditures were converted to constant 1999 dollars using consumer price index values of 1.093, 1.062, 1.038, and 1.022, 1.0, and 0.96 for 1995 through 2000, respectively. Blank cells indicate that data are not available. This table is from Blau 2001a, Table 8.2.

^a Committee on Ways and Means 2000, 816. The figure for 2000 is estimated (600). The 1998 figures are preliminary. Figures in the lower panel are number of returns filed claiming the credit, not the number of children. The figures are for calendar years, not fiscal years.

- ^b Office of Management and Budget 1996, Table 5-1. These figures are for the calendar year. The method used to compute them is unclear, and in budget statements for subsequent years they are different. They are also different in Joint Committee on Taxation (1999). These are probably the least reliable figures in the table.
- ^c Head Start Fact Sheet 2001.
- ^d Thirteen percent of \$1.775 billion, multiplied by 0.96 to convert to 1999 dollars (Committee on Ways and Means 2000, 600).
- ^e Estimated at 15 percent of \$1.9 billion for TXX from Committee on Ways and Means (2000, 634).
- ^f Committee on Ways and Means 1998, 714, 720: 14.8 percent of total TXX funding of \$2,800 billion, \$2.381 billion, and \$2,500 billion for fiscal years 1995, 1996, and 1997.
- ^g Committee on Ways and Means 2000, 600.
- ^h Committee on Ways and Means 1998, 679, 687.
- ⁱ U.S. Department of Agriculture 2001.
- ^j I computed these figures by summing all federal and state expenditures on the CCDF, either directly or through transfers to TANF, using data from the annual TANF reports to Congress (U.S. Department of Health and Human Services, various years) and reports from the Child Care Bureau (various years). The latter source provides allocations to the CCDF for fiscal years 200 and 2001, but there are not data available on transfers from TANF for these years. Transfers to TANF constituted about half of CCDF spending in fiscal year 1999.
- ^k U.S. General Accounting Office 1998, 4; total funding for the four programs later consolidated into the CCDF: AFDC-CC, TCC, ARCC, CCDBG.
- ^l Administration for Children and Families 2000a.
- ^m Administration for Children and Families 1998, 1.
- ⁿ Sum of AFDC-CC, TCC, ARCC, and CCDBG Administration for Children and Families 1995.
- ^o U.S. General Accounting Office 1999, 6: Department of Education programs: Title I-A, Individuals with Disabilities Education Act, Even Start, Twenty-First Century Learning Centers. U.S. General Accounting Office (2000b) gives different figures, and an estimate of 341,000 preschool children served by Title I-A and Even Start.

ment money in the long run (Robins 1991, p. 15). These arguments explain why many child care subsidies are conditioned on employment or other work-related activities such as education and training. Child care and other subsidies paid to employed low-income parents may cost the government more today than would cash assistance through TANF. But if the dynamic links suggested above are important, then these employment-related subsidies could result in increased future wages and hours worked and lower lifetime subsidies than the alternative of cash assistance both today and in the future. Note that this argument has nothing to do with the effects of child care on children, and there are few restrictions on the type and quality of child care that can be purchased with employment-related subsidies such as the CCDF and DCTC.

There is surprisingly little known about wage growth of low-skilled workers, but a recent paper by Gladden and Taber (2000) provides some useful evidence. Using panel data from the National Longitudinal Survey of Youth, they analyze wage growth of individuals with no more than a high school education over the first ten years after completing schooling. They find that wage growth rates as a function of labor market experience are very similar for different skill groups, as defined by education (high school graduate or high school dropout). The fact that the lower-skilled groups have wage growth rates similar to the higher-skilled groups suggests that low-skilled workers do gain higher wages by being employed. But the actual wage growth rates with experience are modest for all skill groups, and do not seem high enough to lift low-skilled workers out of poverty. For example, high school dropouts averaged 4.4 percent wage growth per year of actual work experience over the first 10 years of work. Thus, if a high school dropout began working at the minimum wage of \$5.15, after 10 years of work experience her wage rate would have increased to \$8.00. This is not negligible but is also not enough to significantly reduce dependence on welfare. Gladden and Taber conclude from their results that “. . . low-skilled workers will not have huge wage gains from work experience” (p. 189).

Middle- and upper-income families are generally not at risk of going on welfare, so why should the government provide subsidies for the employment-related child care expenses of such families through the DCTC and EEPDCE tax programs? There is no apparent economic

rationale for such subsidies. They appear to be purely a redistribution of the federal tax burden from taxpayers who use paid child care to those who do not, in much the same way that the mortgage interest deduction redistributes the tax burden away from homeowners and toward nonhomeowners. In the absence of any economic rationale for middle-class child care subsidies, the most likely explanation for the existence of such subsidies is that they are politically popular.

Market Imperfections

The other main argument in favor of government child care subsidies is the existence of imperfections in the child care market. The imperfections that are often cited are imperfect information available to parents about the quality of child care, and positive external benefits to society generated by high-quality child care. Walker (1991) spells out these points in detail; the discussion here follows his arguments closely (see also Council of Economic Advisers 1997; Magenheim 1995; and Robins 1991). Imperfect information in the child care market exists because consumers are not perfectly informed about the identity of all potential suppliers, and because the quality of care offered by any particular supplier is not fully known. A potential remedy for the first problem is government subsidies to Resource and Referral (R&R) agencies to maintain comprehensive and accurate lists of suppliers. This may not solve the problem in practice because of very high turnover and unwillingness to reveal their identity among informal child care providers. The second information problem is caused by the fact that consumers know less about product quality than does the provider, and monitoring the provider is costly to the consumer. This can lead to moral hazard (hidden action) and/or adverse selection. Moral hazard is a plausible outcome in day care centers (for example, changing diapers just before pick-up time). Adverse selection of providers is plausible in the more informal family day care sector: family day care is a very low-wage occupation, so women with high wage offers in other occupations are less likely to choose to be care providers. If the outside wage offer is positively correlated with the quality of care provided, then women who choose day care would offer lower-quality care than would the potential caregivers who choose other occupations.

Is there evidence that child care consumers are not well informed? Walker (1991) reports that 60–80 percent of child care arrangements made by low-income parents are located through referrals from friends and relatives or from direct acquaintance with the provider. This suggests that consumers may not be well informed about a wide range of potential providers, but it does not prove that a suboptimal amount of information is used by consumers. Using data from the “Cost, Quality, and Outcomes” study Helburn (1995) and Cryer and Burchinal (1995) report a direct comparison of parent ratings of various aspects of their child’s day care center classroom with trained observer ratings of the same aspects. The results show that parents give higher average ratings on every item than do trained observers, by about one standard deviation on average for preschool age classrooms and by about two standard deviations on average for infant/toddler rooms. The instrument containing these items, The Early Childhood Environment Rating Scale (Harms and Clifford 1980), is of demonstrated reliability when administered by trained observers, so this suggests that parents are not well informed about the quality of their child care arrangements. Sonenstein (1991) reports that low-income mothers express greater satisfaction with their child care arrangements when they believe it is convenient, reliable, and low cost than when they believe it is high quality.

The evidence suggests that there may be an information problem in the child care market, but it does not rule out other possibilities. For example, parents could be aware of the developmental benefits of high-quality child care but place low value on those benefits compared with other things they can buy. Parents might feel that their own influence on the development of their children can make up for the effects of low-quality child care, or that the developmental outcomes measured by standard assessments are less important than, say, religious values, respect for authority, and other intangible attributes of child care.

Child care subsidies targeted at high-quality providers could induce parents to use higher-quality care by reducing the relative price of such care. This would not necessarily remedy the information problem, but it would deal with a consequence of that problem, namely a level of child care quality that is suboptimal from the perspective of society. Head Start and Title I tend to provide subsidies for high-quality

ity child care for low-income children, while other subsidies generally place few restrictions on quality.⁷

The externality argument is a standard one that closely parallels the reasoning applied to education. High-quality child care leads to improved intellectual and social development, which in turn increases school-readiness and completion. This reduces the cost to society of problems associated with low education: crime, drugs, teenage pregnancies, and so forth. If parents are not fully aware of these benefits, or if they account for only the private rather than the social benefits of high-quality child care, then they may choose child care with less than socially optimal quality. This argument could rationalize subsidies targeted to high-quality providers, such as Head Start, and could rationalize similar programs for middle- and upper-income children.

Evidence on the effect of child care quality on child development is of two main types. The first is from randomized assignment studies that have evaluated the impact of high-quality preschool programs for disadvantaged children. A comprehensive review of early childhood interventions by Karoly et al. (1998) concludes that such programs can provide significant benefits to participating children and can reduce future expenditures on welfare, criminal justice, and related items. This evidence is compelling, but it is based mainly on very intensive and costly programs that are of higher quality than even Head Start. It is unclear whether child care of moderately high quality provides positive but proportionately smaller developmental benefits, or whether there exists a threshold of quality below which benefits are negligible. The second type of evidence is from observational studies of children placed by their parents in child care arrangements of varying quality. Such studies have generally not followed the children long enough to determine whether any observed developmental gains are long-lasting and whether there are subsequent effects on school outcomes. Hence, there is very little evidence about externalities in the child care market.

WHAT PRINCIPLES SHOULD GUIDE CHILD CARE POLICY?

The following principles are based both on my reading of the evidence and on the goals that I believe a child care policy should attempt to achieve. The latter are obviously based on my opinion.

Child care policy should be neutral with respect to employment. There are no compelling economic or moral reasons for society to encourage employment of both parents in a two-parent middle-class family. Although many parents may feel that two incomes are necessary for a reasonable standard of living, there is no reason why society should provide them with a subsidy to defray the child care costs associated with achieving the desired standard of living. There is a more compelling case for society to encourage single parents to achieve economic independence through employment, but a child care subsidy is at best an indirect and at worst an ineffective approach to accomplishing this goal. A wage subsidy such as the Earned Income Tax Credit (EITC) or a job skills training program are more direct approaches to dealing with the underlying source of welfare dependence, low skills and the resulting low wages. Instead of subsidizing employment of parents, government should, if anything, subsidize the costs of raising children, without favoring market child care costs over the foregone earnings cost of a parent who stays home to care for a child.

Child care policy should provide information to parents about the benefits of high-quality child care and about how to discern the quality of care. In my view, quality is the crux of the child care problem. If parents lack information about the benefits of high-quality child care or do not know how to recognize it, then children suffer as a result. The evidence on these points is not overwhelming, but it is persuasive enough that I would prefer the government take action rather than risk harm to children. If effective and low-cost policies to provide information can be designed, then this would be a good approach because it directly addresses the source of the inefficiency.

Child care policy should provide incentives for parents to choose high-quality care. These policies would be worthwhile, because as noted above some parents who are fully informed about the benefits of

high-quality child care may nevertheless fail to choose it. Financial incentives can be a potential remedy for this problem.

Child care policy should give providers an incentive to offer high-quality care. If consumers are given incentives to choose high-quality child care, providers will have an incentive to offer such care. This is the essential feature of a competitive market: firms can prosper only by offering the services for which consumers are willing to pay. Nevertheless, it is possible that the child care market may not be able to respond to a large increase in the demand for high-quality care without a substantial increase in the price of such care. Many high-quality day care centers and preschools are nonprofit establishments that rely on donated space and volunteer labor. They may be unable to expand their capacity enough to absorb large numbers of additional children. For-profit providers will have an incentive to increase quality in response to consumer demand, but they may lack the knowledge and resources to upgrade quality rapidly. Hence, a government policy to help defray the cost of improving quality may be worthwhile.

Child care policy should be progressive: benefits should be larger for children in low-income families. Children in low-income families are at greater risk of developmental delays and the problems that result from such delays. It makes sense that the benefits of high-quality child care are thus larger for these children, and there is some evidence to support this presumption (Currie 2001). Equity considerations also favor a progressive child care policy. This is, of course, purely a personal judgment, not a logical consequence of economic analysis, but it is a compelling judgment to me.

Child care policy should be based on incentives, not regulations. Regulating an industry with a few large firms, such as long-distance telecommunications, is difficult enough. Regulating an industry such as child care with hundreds of thousands of providers is likely to be either very costly or ineffective. Given the relatively small enforcement budgets of most states (U.S. General Accounting Office 2000a), it is not surprising that state child care regulations appear to have relatively little impact on the child care market (Blau 2001a, Chapter 8). I would not discourage the states from regulation, but I would not base federal child care policy on regulation. Financial incentives are more

flexible than regulations and if designed well can be self-enforcing rather than requiring a monitoring bureaucracy.

Child care policy should be based on the presumption that well-informed parents will make good choices about the care of their children. Government can provide the best available information to influence parental decision making, and it can provide incentives to make good choices for children. But government should not limit the freedom of parents to arrange care for their children as they see fit, subject to caveats about neglect and abuse. Not all parents will want to take advantage of subsidized high-quality child care in preschools and family day care homes. Some will prefer care by a relative or close friend, some will prefer care in a church-based setting that emphasizes religion, and some will prefer a baby-sitter in the child's home. These choices may not be optimal from a child development perspective, but society should not be in the business of coercing parents to raise children in a particular way. As long as safety and general well-being are assured, parents should be the decision makers. Government policy should inform parents of the benefits of high-quality child care and encourage its use, but it should not require it.

WHAT ARE THE PROBLEMS WITH CURRENT CHILD CARE POLICY?

The majority of child care subsidy dollars are independent of the quality of care under current child care policy. Most of the child care subsidies provided under the CCDF are in the form of certificates (vouchers) that can be used for any legal child care arrangement. The DCTC and the EEPDCE are also unrestricted subsidies that are not tied to the quality of care. The CCFP does not impose any quality standards beyond existing state regulations. Head Start and Title I-A are the only major subsidy programs that require high quality. The latter two programs account for only 43 percent of all child care subsidies according to the information in Table 2.

The reason for this is clear: most child care subsidies are intended to defray work-related child care expenses. In fact, Head Start and

Title I-A are typically not even thought of as child care subsidies, but rather as early education programs for disadvantaged children. They are not designed to facilitate parental employment and are therefore generally not classified as child care programs. But setting aside labels, employment-related and child development–related programs share two common features: they subsidize care of a child by someone other than the parent, which reduces the cost to the parent of being employed, whether by design or not. And they affect child development through the quality of the care provided, again whether or not this was intended. Because they have the explicit goal of facilitating employment, “child care” subsidies emphasize care that is convenient for employment, i.e., full-day care, and are neutral with respect to quality. “Early education” programs emphasize quality rather than facilitating employment, and as a result are often part-day. Conceptually they are the same kinds of programs, located at different points on the two-dimensional continuum of quality and employment facilitation. Viewed in this way, the problem with federal child care policy is clear, at least to me: more than half of subsidy dollars require employment but not quality.

The goal of employment-related child care subsidies targeted at low-income families is to help families achieve and maintain economic self-sufficiency as an alternative to dependence on welfare. If child care subsidies make employment more attractive, and if skills improve through on-the-job training and experience gained by being employed, then child care subsidies would indirectly address the problem of low skills, which is the source of the welfare dependency problem. In this case, child care subsidies would help families escape poverty and welfare dependence in the long run. But as noted above, the typical low-wage job does not provide fast enough wage growth to lift the worker out of poverty. In this case, the child care subsidy must be continued indefinitely in order to make employment attractive, and the goal of economic independence is not achieved. One form of dependence on government assistance, a cash benefit, is simply replaced by another form, a child care subsidy. A policy that deals with the direct cause of welfare dependence—low skills—would be more appropriate. There is no evidence that child care subsidies will increase economic self-sufficiency, defined as nonparticipation in means-tested government pro-

grams. Employment-related child care subsidies for middle-class families are even harder to rationalize.

The new welfare system created by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 imposes employment requirements and time limits on receipt of cash benefits. In the context of this system, child care subsidies might appear to be quite sensible. If welfare recipients are forced to accept employment at low wages, child care subsidies can help make employment more financially rewarding than cash assistance. But other policies, such as the EITC, can accomplish this as well, without the unintended consequences caused by employment-related child care subsidies such as low-quality child care. There is no logical connection between requiring employment and providing child care subsidies: if employment is to be required and if employment at typical jobs available to low-skilled individuals provides less net income than cash assistance, then a wage subsidy such as the EITC is a more direct remedy that does not induce distortions in child care incentives.

I question the wisdom of a welfare system that requires employment for mothers of young children, given the absence of evidence that this will lead to long-run economic independence, defined as not being dependent on *any* means-tested transfer, not just cash assistance. If child care subsidies and other employment-conditioned subsidies such as the EITC are necessary to make employment more financially rewarding than cash assistance, and if employment at low-skill jobs fails to lead to improved skills and wages, then why require employment? However, the main point I want to make here does not depend on the nature of the welfare system. The point is that employment-conditioned child care subsidies cannot be justified by the claim that the child care market is inefficient. The child care market may very well be inefficient, but not for reasons associated with employment.

It may be argued that equity considerations can justify intervention in the child care market. The poor have less money to spend on child care than others and are therefore likely to end up with lower-quality care in the absence of government intervention. This argument is not specific to child care: the poor are likely to end up with lower quality medical care, education, food, shelter, and other things that might affect child development. The problem is that the poor do not have enough money, not that they do not have enough money to afford high-

quality child care. The government could, of course, provide subsidies to the poor for all of the goods and services deemed essential to healthy child development, and this is in fact the basis of most government policy toward the poor (Medicaid, food stamps, housing subsidies, and so forth). It would be simpler to transfer cash to the poor instead of subsidizing many different goods and services, but many people worry that the poor cannot be trusted to spend the cash on items deemed essential for the well-being of their children.

A PROPOSAL FOR REFORM

There are four elements to my proposal.⁸ I describe these in general terms and then discuss the cost of the proposal based on a specific set of numbers for benefit levels, including savings from eliminating some existing programs. The goals of the proposal are to increase consumer knowledge about the benefits of high-quality child care, encourage consumers to use high-quality child care, encourage providers to offer high-quality care, and provide increased flexibility to parents of young children in making choices about employment. The proposal is tailored specifically to accomplish these goals, but I cannot offer any reliable evidence about how effective the program would be. Below, I present some illustrative calculations of take-up and cost based on my best guesses.

Provide a means-tested child allowance. Each family would receive an allowance from the federal government for up to two children, from birth through age 17. The allowance could take the form of a refundable tax credit, requiring that a family must file a tax return to claim the allowance. Refundability means that a family with no tax liability is eligible for the credit, so it is of value to low-income families. The value of the allowance should decline as the level of family income rises, and it should be phased out entirely for high-income families. There would be no restrictions on use of the allowance, since it would be in the form of cash. It could be used to pay for child care, food, housing, medical care, or other items that directly benefit children, but it could just as easily be used for other purposes. It could be

used to subsidize non-employment by one of the parents, so that the parent can stay home to care for the child. It could also be used to pay for child care should parents choose to be employed. The principle behind a cash allowance is that parents care about the well-being of their children and are in the best position to decide how to allocate additional resources to improve child well-being. This feature of my proposal is very similar to Walker's (1996) proposed child allowance. I suggest that the allowance should be limited to two children per family in order to avoid providing strong pronatalist incentives.

Subsidize the cost of accreditation to child care providers. Organizations such as the National Association for the Education of Young Children (NAEYC) charge a fee to day care centers and preschools that seek to become accredited as high-quality providers. Organizations such as the NAEYC should be subsidized to provide accreditation services to child care providers at low or zero cost to the providers. A system with two levels of accreditation seems sensible to me, so that centers that are unable to qualify for the highest level of accreditation could nevertheless be certified as providing care of good quality by meeting an intermediate set of standards. In the system I have in mind, each provider would be either 1) unaccredited, meaning that it is not certified as offering high-quality care, though it presumably meets state regulatory standards; 2) accredited as offering care of good quality; or 3) accredited as offering care of excellent quality. Participation by providers would be voluntary; a provider that does not wish to become accredited is not required to do so. A similar system for family day care homes is feasible as well. However, baby-sitters and relatives would not be included in such a rating system. As discussed below, providers will have an incentive to offer high-quality child care and to be accredited as such.

Inform all new parents of the benefits of high-quality child care, how to recognize high-quality care, and how to find it. The simplest way to accomplish this would be to give a booklet and video with such information to mothers when they are in the hospital to give birth. The booklet and video should describe and illustrate in vivid terms what a high-quality child care arrangement looks and feels like, and contrast it with a low-quality arrangement. The consequences for child develop-

ment of high- and low-quality care should be described, without making claims that cannot be supported by scientific evidence. The booklet and video should describe the accreditation system and should emphasize that accreditation is certified by independent agencies. They should also contain information on how to contact local resource and referral agencies and other sources of information about the local child care market.

Provide a means-tested child care voucher with a value that depends on the quality of the child care provider at which it is redeemed. The voucher would be worth more if it is used at an accredited provider. For example, a low-income family might receive a subsidy of 30 percent of the average cost of unaccredited child care, 60 percent of the average cost of “good quality” care, and 100 percent of the average cost of “excellent quality” care. This gives families an incentive to seek care of high quality, and it gives providers an incentive to offer high-quality care in order to attract consumers. The value of the voucher would be smaller for higher-income families, and it would be phased out entirely at high-income levels. The voucher would be of no value if the family does not purchase child care or pays a relative or baby-sitter for child care. This is a disadvantage, but it is unavoidable if the system is to contain incentives for the use of high quality care. Parents who do not use the voucher still receive benefits from the child allowance part of the system. The voucher does not require employment, so it would encourage use of high-quality care by non-employed mothers to enhance child development.

This proposed system is consistent with all of the principles described in the previous section. All of the elements of the system are neutral with respect to employment, consistent with freedom of parental choice, and rely on incentives rather than regulations. The child allowance and voucher make the system progressive, providing greater benefits for low-income families. The voucher and technical assistance subsidies provide incentives for improving quality of care demanded and supplied. The information booklet provides parents with the information needed to help them make well-informed decisions.

This proposed system would replace the entire current federal child care subsidy system. Employment-related child care subsidies, includ-

ing the DCTC, EEPDCE, the CCDF, and TXX-CC, would be eliminated. Head Start and Title I-A programs could be integrated into the new system. These programs would be evaluated and accredited (or not) by the same standards as other programs and would be eligible for vouchers accordingly. Funding for these programs would be integrated into the new subsidy system. Head Start and Title I-A establishments could choose to maintain their special status as being designated mainly for children from low-income families, or they could choose to accept other children as well. The system would also replace all current tax deductions and credits for children, including the exemption for children and the child tax credit. The proposed child allowance serves the same purpose as these programs, so they would be redundant. Finally, the proposed new system would also replace Temporary Assistance for Needy Families (TANF). TANF provides cash assistance to low income families with children, and the child allowance portion of my proposal does the same; however, my proposal does not replicate the employment requirements and time limits of TANF. This is a deliberate choice: though the child allowance benefit that I propose is means-tested, the child allowance is not welfare and is phased out at a relatively high level of income. Other policies could be used to encourage employment of low-income parents if this is considered desirable.

Because the proposed system is neutral with respect to employment, it would not replace programs that are explicitly intended to encourage employment, such as the EITC, job training, and education programs. If society considers it desirable for low-income single mothers to be employed rather than receive cash assistance, the voucher part of the child care system I propose provides considerable resources that such mothers could use for child care. On the other hand, the child allowance is likely to have a negative effect on employment, since this benefit would be available regardless of employment status. So, unlike the current child care system, the proposed new system does not encourage employment, and if such encouragement is desired it would have to come from another source.

The cost of the proposed new child care policy depends on a number of factors that are difficult to quantify, so the estimates I present here are no more than illustrative. I try to justify the specific numbers used in the calculations, but there is a large amount of unavoidable

arbitrariness. Hence these estimates are no more than educated guesses and should not be treated as reliable. I propose a child allowance of \$5,000 per child aged 0–17 per year for families below the poverty line; \$3,500 per child aged 0–17 for families with income between one and two times the poverty line; \$2,000 per child aged 0–17 for families with income between two and four times the poverty line; and no allowance for families with income over four times the poverty line. The allowance would be provided for, at most, two children per family. Table 3 displays the average family income of each of these four income groups in 1999, and the numbers of children by age in each income group. The figures in the last three rows of the table show the number of eligible children, accounting for the maximum of two per family.

Table 4 shows illustrative cost calculations, based on the data in Table 3 and the figures assumed for the value of the voucher. The first two rows of Table 4 show the annual cost of the child allowance, assuming that all eligible children receive it. This cost is \$131.608 billion.

The base amount of the proposed child care voucher is \$6,000 for one preschool-aged child in a low-income family that redeems the voucher at a day care center accredited as providing high-quality care. This figure is an estimate of the cost of providing day care in a high-quality center. I used the “Cost, Quality, and Outcomes” data (Helburn 1995) to compute the average cost of care per child in day care centers with an Early Childhood Environment Rating Scale score of good or better (5–7 on a scale of 1–7). This was approximately \$5,000 in 1993.⁹ After adjusting for inflation, this amounts to \$5,765 in 1999. I add an extra \$235 per child to account for the higher real salary that will be needed to attract substantial numbers of well-qualified providers into the field. The \$6,000 figure I use here can be compared to the \$6,000 estimate of the cost of high-quality care used by Barnett (1993), which is equivalent to \$6,918 after adjusting for inflation, and to the \$5,417 cost per child of Head Start in 1998.¹⁰ The value of the voucher is adjusted down by one-third for good quality care and by two-thirds for child care that is unaccredited. The value of the voucher is reduced by one-sixth for families between one and two times the poverty line and by one-half for families between two and four times the poverty

Table 3 Number of Children and Average Income, by Income/Needs Category

| | I/N < 1.0 | 1.0 ≤ I/N < 2.0 | 2.0 ≤ I/N < 4.0 | 4.0 ≤ I/N |
|--|-----------|-----------------|-----------------|-----------|
| Average family income | \$7,911 | \$23,800 | \$46,516 | \$108,350 |
| All children | | | | |
| Number of children | | | | |
| < 6 | 4.688 | 4.854 | 7.085 | 5.539 |
| 6–12 | 5.499 | 6.146 | 9.554 | 7.337 |
| 13–17 | 2.932 | 3.565 | 6.511 | 5.965 |
| Maximum of 2 children aged 0–12 per family | | | | |
| Number of children | | | | |
| < 6 | 4.402 | 4.683 | 6.911 | 5.443 |
| 6–12 | 3.829 | 4.808 | 8.169 | 6.596 |
| Maximum of 2 children aged 0–17 per family | | | | |
| Number of children | | | | |
| 0–17 | 9.919 | 11.938 | 20.115 | 17.759 |

NOTE: I/N is Income/Needs, total family income divided by the poverty standard for the size and structure of the family. Numbers of children are in millions. The figures under “Maximum of 2 children aged 0–12 per family” were computed as follows: if there were at least two children < 6, then number of children < 6 was set to two and number of children 6–12 was set to zero. If there was one child < 6 and at least one child 6–12, then the number < 6 and the number 6–12 were both set to one. If there were no children < 6 and at least two children 6–12, then the number of children 6–12 was set to two.

SOURCE: Tabulations from the March 1999 Current Population Survey.

Table 4 Illustrative Cost Calculations for a Proposed New Child Care System

| | Family income needs ratio | | | | Total cost (\$, billions) |
|--|---------------------------|----------|----------|-------|------------------------------|
| | 0.0–1.0 | 1.01–2.0 | 2.01–4.0 | 4.01+ | |
| Allowance per child 0–17 (\$) | 5,000 | 3,500 | 2,000 | 0.0 | |
| Cost of the child allowance, maximum of two children per family (\$, billions) | 49.595 | 41.783 | 40.230 | 0.0 | 131.608 |
| Child care voucher per child <6 (\$) | | | | | |
| High quality | 6,000 | 5,000 | 3,000 | 0.0 | |
| Good quality | 4,000 | 3,333 | 2,667 | 0.0 | |
| Other | 2,000 | 1,667 | 1,333 | 0.0 | |
| Child care voucher per child 6–12 (\$) | | | | | |
| High quality | 2,000 | 1,667 | 1,000 | 0.0 | |
| Good quality | 1,333 | 1,111 | 850 | 0.0 | |
| Other | 667 | 556 | 440 | 0.0 | |
| Estimated number of voucher users (max. 2 per family) with children aged 0–5 (millions) | | | | | |
| High quality | 2.861 | 3.044 | 4.492 | | |
| Good quality | 0.660 | 0.702 | 1.037 | | |
| Other | 0.440 | 0.468 | 0.691 | | |
| Estimated number of voucher users (max. 2 per family) with children aged 6–12 (millions) | | | | | |
| High quality | 2.489 | 3.125 | 5.310 | | |
| Good quality | 0.574 | 0.721 | 1.225 | | |
| Other | 0.383 | 0.481 | 0.817 | | |
| Total cost of vouchers (\$, billions) | 26.685 | 24.617 | 23.873 | 0.0 | 75.176 |
| Technical assistance | | | | | 0.075 |
| Information booklet and video | | | | | 0.035 |
| Gross total cost of the child care system | | | | | 206.894 |

(continued)

Table 4 (continued)

| | Family income needs ratio | | | | Total cost (\$, billions) |
|---|---------------------------|----------|----------|--------|------------------------------|
| | 0.0–1.0 | 1.01–2.0 | 2.01–4.0 | 4.01+ | |
| Savings from eliminating (\$, billions): | | | | | |
| TANF | | 30.4 | | | 30.4 |
| Child care subsidies | | | | | 21.0 |
| Tax exemption for dependent children | 0 | 6.008 | 17.800 | 14.500 | 38.3 |
| Child tax credit | | | | | 21.6 |
| Total savings | | | | | 111.3 |
| Net total cost of the child care system | | | | | 95.594 |

NOTE: Assumes that 65% of eligible children will be in high quality child care, 15% in good quality care, 10% in other care, and 10% not in child care (and therefore not using the voucher). The cost calculations for technical assistance and information distribution are described in the text. TANF cost is computed from Administration for Children and Families (2000b) and includes state and federal cost. Child care subsidies are from Table 2, assuming items that are not available for 1999 are the same in 1999 as in the most recent year for which they are available. Savings from eliminating the tax exemption for children uses the deduction from income of \$2750 per child, and assumes that families in poverty pay no income tax, families between one and two times the poverty line are in the 15% tax bracket, and other families are in the 28% bracket. Child tax credit figure is from Committee on Ways and Means (1998, p. 840).

line. It is reduced by two-thirds for children aged 6–12. Table 4 illustrates these adjustments.

The most speculative part of the calculation is estimating the take-up rate of the voucher. I have no sound basis for doing this, so my estimates are completely arbitrary. I assume that within each income group 65 percent of eligible children will use high-quality care, 15 percent will use good-quality care, 10 percent will use unaccredited care, and 10 percent will use no child care and therefore will not redeem the voucher. The value of the voucher to low-income families is quite high compared with existing subsidies (except for Head Start), so it seems sensible to assume that it will have a high take-up rate. For the other eligible income groups, I assume that the lower value of the voucher is

compensated by higher income, and that the information dissemination part of the program convinces families to use high-quality care in large numbers. This is plausible because the value of the voucher is much higher than current child care subsidies available to families in the low-to middle-income range. Table 4 shows the implied cost of the vouchers: \$75.176 billion. The costs of the other two parts of the system are minuscule compared with the cost of the allowance and the voucher. These are shown in Table 2 and amount to \$110 million.¹¹

The total cost of the proposed new system is \$206.894 billion per year. However, as shown in Table 4, eliminating programs that would be redundant with the new system saves almost \$111.3 billion per year. After accounting for savings due to eliminating TANF, child care subsidies, the tax exemption for dependent children, and the child tax credit, the net annual cost of the new system is \$95.594 billion. This is obviously a very large sum and may not be politically feasible. Readers who have trouble swallowing a cost this large can use the information in Table 3 to compute the cost of child allowance and voucher subsidies of smaller magnitudes or with lower assumed take-up rates. The proposed system is highly progressive, but it does provide substantial benefits up to an income level of four times the poverty line, which is about \$64,000 on average in 1999. Hence benefits are spread quite far up the income distribution, and about 75 percent of all children would be eligible for subsidies, based on the figures in Table 3. Assuming that the additional taxes needed to finance the cost of the system are raised in proportion to the current distribution of the income tax burden by income group, the system would be highly progressive. Other possibilities for reducing the net cost of the system would be to eliminate some other means-tested programs for families with children, such as food stamps and subsidized housing. I do not pursue this possibility here because I want to keep the focus on programs that are specifically child oriented.

The main losers under the proposed system are high-income families, who will lose the tax exemption, child care tax credit, and exclusion of employer-provided dependent care expenses with nothing gained in return. (See Blau 2001a, Chapter 10, for details.) In my judgment, these families can afford this loss with little hardship and would still be able to purchase child care of high quality. I have no objection in principle to providing benefits to all families regardless of

income, but a universal system is far more expensive than a means-tested system, particularly if the value of the voucher and child allowance is not reduced at higher income.

There are many practical issues that would arise if such a system were to be implemented. Here I briefly discuss only three of these issues. First, how does the voucher get delivered to eligible families? The voucher is means-tested, but three-quarters of all children would be eligible, so it seems unlikely that stigma associated with use of a voucher would be a significant deterrent to its use. Nevertheless, because the child care subsidy is not universal, the voucher must somehow be delivered to eligible families, and there could be significant time costs to a family of securing a voucher. One possibility that could help avoid this is for the voucher to be delivered to families by the Internal Revenue Service, based on the tax return for the previous calendar year, and on an estimate by the family of changes in income and eligibility for the subsequent year. After filing a tax return for calendar year $t - 1$ in, say, March of year t , the family receives from the IRS in April a child care voucher for year t with a value based on calendar year $t - 1$ income, the age distribution of children anticipated in year t , and any adjustments to expected calendar year t income and age distribution of children noted by the family on the tax return. If income for year t turns out to be different than anticipated, the value of the voucher for the following year can be adjusted accordingly. The voucher is redeemed by the family at the chosen provider, and the provider returns it to a designated government office for compensation. This may require the provider and/or consumer to extend credit temporarily.

A second practical issue is the possibility of a shortage of high-quality child care during the transition to the new system. If tens of millions of families receive substantial new child care subsidies targeted for use in high-quality child care, the child care market may not be able to respond quickly with large increases in capacity. One way to make the transition smooth is to delay the distribution of vouchers until about a year after the new system becomes law, in order to give centers and family day care homes time to expand and upgrade quality. Any shortages that are caused by implementation of the new system are likely to be transitory, since providers will have strong incentives to expand capacity and upgrade quality in order to attract consumers with vouchers.

A final issue that should be discussed is the relationship between the proposed new system and state and local child care policy. The current child care subsidy system gives states some flexibility in how they use federal CCDF and TXX-CC subsidies, both of which are disbursed as block grants. States can choose the income eligibility criterion, the sliding-scale fee, and other features of their CCDF-funded programs, within limits. There is much less flexibility in the Head Start and Title I-A programs, since these must meet the uniform federal Head Start standards and income eligibility guidelines. States would lose some flexibility in the new system, because both the income eligibility and quality guidelines would be uniform federal standards. In fact, state bureaucracies that administer federally funded child care subsidies would no longer be needed, since all subsidies would be disbursed through the federal income tax system. However, many states have their own child care subsidy programs funded entirely by state funds. The proposed new system would not interfere with these programs. These programs vary widely, ranging from state child care tax credits and mini-CCDF-style programs, to teacher training initiatives and quality-improvement subsidies.¹² States would be free to fund whatever child care programs they like, or to discontinue such programs if they are found to be no longer necessary as a result of the expanded federal system.

CONCLUSION

Child care is a problem in the United States because the quality of care is low on average. Current child care policy does relatively little to address the problem because most child care subsidies are designed to encourage employment rather than enhance child development. The tension between these alternative goals ensures that debate and discussion of child care policy issues will continue for the foreseeable future. There is not a consensus on the goals of child care policy or on the means to achieve those goals. This is due in part to conflicting views on the proper role of the government in a domain that was mainly left to families as recently as a generation ago. My proposal is squarely on the side of enhancing child development, and this will no doubt be con-

troversial. The proposal is quite costly, though it is possible to reduce the cost as much as desired by providing less generous subsidies. In exchange for the substantial cost of the proposal, one would hope for large benefits. I believe that there would be large benefits in the form of enhanced child development, leading to improved school performance, a more productive labor force, and fewer social problems such as crime and welfare dependence. But I cannot provide any compelling quantitative evidence to support this belief. In any case, most readers would probably like or dislike the proposal based on their values and beliefs rather than on evidence about its benefits and costs, even if reliable evidence were available. This is not offered as an excuse for the absence of evidence, but in recognition that there are limits to the ability of economic analysis to influence decision making.

Notes

Thanks to Jean Kimmel for comments. Comments welcome at david_blau@unc.edu.

1. The federal government does not have the authority to regulate child care; this is the responsibility of states. Child care regulations are an important part of the overall structure of government child care policy, but they are not discussed here because they are not part of federal child care policy. See Blau (2001b) and Blau (2001a, Chapter 8) for analysis of child care regulations.
2. Some smaller programs omitted from the table are listed in U.S. General Accounting Office (1994) and Robins (1991). A number of states have their own tax credits for child care, but they generally provide small benefits.
3. The programs were Aid to Families with Dependent Children—Child Care, Transitional Child Care, At-Risk Child Care, and the Child Care Block Grant. See Blau (in press) for details.
4. TANF is the cash assistance welfare program created by PRWORA in 1996 to replace AFDC.
5. Head Start served 822,316 children in FY1998, compared to an estimated 4.775 million children under age six in poverty in calendar year 1998 (Current Population Report P60-207, Table 2). However, 96 percent of children in Head Start are aged 3–5. Assuming that half the children under age six are aged 3–5 yields 34.4 percent as the percentage of 3- to 5-year-old children in poverty who are served by Head Start.
6. It is sometimes argued that shortages of child care of certain types in specific locations are important enough to justify government intervention. I do not believe this is a significant enough issue to warrant systematic government intervention. See Blau (2001a) for discussion of shortages in the child care market. Another argument for government child care subsidies is based on distributional considerations related both to cross-sectional equity at a given time and to the

long-run benefits to children of high-quality child care. Bergmann (1996, p. 131) argues that high-quality child care can be thought of as a “merit good, something that in our ethical judgment everybody should have, whether or not they are willing or able to buy it.” In its pure form this argument is based solely on the moral grounds that it is unethical to deprive any child of the optimum conditions for development if society has the resources to provide such conditions.

7. Regulations can deal with information problems to some extent, by ensuring that all providers offer care of some minimum quality. This is discussed in Blau (2001a, Chapter 8).
8. Other proposals for reform of child care policy include Barnett (1993), Bergmann (1996), Gormley (1995), Helburn and Bergmann (2002), Kagan and Cohen (1996), Robins (1990), Walker (1996), and Zigler and Finn-Stevenson (1999). Gomby et al. (1996), Hayes, Palmer, and Zaslow (1990, Chapter 10), and Kahn and Kamerman (1987) also offer some suggestions for reform. See Blau (in press) for discussion of these proposals. I have borrowed liberally from these authors.
9. The cost figure includes the imputed value of donated space and volunteer labor.
10. Head Start Fact Sheet: http://www3.acf.dhhs.gov/programs/hsb/research/99_hsf.htm.
11. The cost of accreditation is assumed to be \$1,000, which is the maximum fee charged by the NAEYC for the accreditation process (<http://www.naeyc.org/accreditation/default.asp>). This is incurred every three years. In 2000 there were an estimated 106,000 licensed day care centers (The Children’s Foundation 2000). I arbitrarily assume that there will be 150,000 day care centers in the new system, 50,000 of which would incur the accreditation cost per year, at \$50 million. I arbitrarily add another \$25 million per year for accreditation of family day care homes. I do not provide any direct subsidies for centers to improve their quality in order to satisfy the accreditation standards. I assume that centers will find it worthwhile to improve quality because of the large increase in demand for high-quality care prompted by the vouchers. Finally, the cost of producing and distributing the informational booklet and video are estimated at \$10 per child, with an estimated 3.5 million children born per year.
12. See <http://cpmcnet.columbia.edu/dept/ncep/main5.html> and <http://www.gao.gov/news.items/he0011.pdf> for information about state child care initiatives.

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