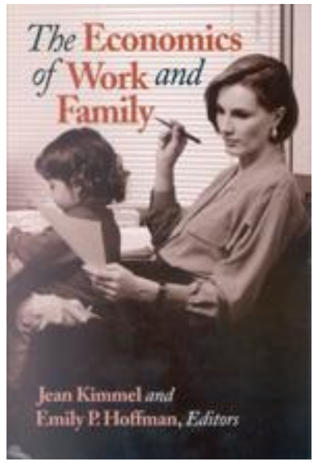
Upjohn Institute Press

Thinking about Child Care Policy

Barbara R. Bergmann
American University



Chapter 2 (pp. 43-70) in:
The Economics of Work and Family
Jean Kimmel, and Emily P. Hoffman, eds.
Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2002
DOI: 10.17848/9780585469683.ch2

2
Thinking about Child Care Policy

Barbara R. Bergmann
*Professor Emerita, American University
and the University of Maryland*

Two revolutions in the latter half of the twentieth century have changed the way our society finances and arranges for the care and rearing of young children. One is women's entry into the labor market; almost two-thirds of mothers with children under six are now in the paid workforce. The second revolution, which resulted from the same economic and social developments as the first, is the increase in the number of single-parent families; they now constitute about one-quarter of the families with children under 6, and they tend to have much lower incomes than other types of families (U.S. Bureau of Labor Statistics 2000). These two revolutions make the traditional model of providing and financing child care—an at-home wife supported by a bread-winning husband—no longer useful for the care of most children.

We have yet to face up to the implications and requirements of those enormously important changes. The paychecks of mothers—both married and single—are now an important source of support for millions of families. In a growing number of cases they are an indispensable source of support. Yet the high cost of child care makes severe inroads on those paychecks and therefore on the standard of living of families. Child care costs can take away 25 percent or more of the incomes of low-wage families.[1] And millions of children are not getting the quality of care that would do justice to their needs for safety, nurture, and development.

The kind of care children receive, as well as the cost of that care and its effect on a family's standard of living, are issues that deserve—and are beginning to receive—national attention. The high cost of child care is one of the major causes of low living standards, lack of self-support, and social pathology in families with children. Obviously, that is, or should be, a matter of public concern. The low quality of care that many young children receive should also be of public concern, as it affects the kind of adult population we will have in the future—it affects the psychological security, the social maturity, and the economic productivity of the future citizens of this country. Equally important, the kind of care a child receives affects the quality of his or her life right now in regard to feelings of happiness, security, and self-worth. The care children receive can also affect parents' ability to get to work reliably, and to feel secure that while at work their children are well cared for. This in turn affects worker productivity, labor turnover, and thus employers' costs of production.

If there is general agreement that child care in the United States is a serious problem, there is little agreement on what to do about it. Conservatives say mothers (with the exception of single mothers, perhaps) should stay home with their children. They regard the movement of mothers out of the home and into jobs as a terrible mistake, and believe that the lack of full-time care by mothers has produced cohorts of unsupervised, unhappy children, many of whom are without morals, are poorly socialized, and are prone to crime. A Republican leader in the U.S. House of Representatives, commenting on a massacre perpetrated by high school students, mentioned day care as a major cause.[2] Libertarians would rely totally on the free market to evolve a supply of care that would be appropriate to the country's needs in terms of quality and cost, and would favor withdrawing what government subsidies and regulations are now in place. Some people argue that government and employer help to families with children discriminates against the childless. Others present the contrary argument, that parents are aiding society by raising children and deserve society's help in doing so. Many advocates of that help look to community action, such as corporations, charities, and foundations, to mobilize the resources to improve the quality and availability of child care in each locality. There are others who hope that state and local governments will increasingly contribute to help parents with child care, and will address part of the problem through the increased provision of free pre-kindergartens. Finally, there are those, myself included, who believe that only a large, active, and expensive federal program, providing both finance and a national framework for quality improvement, will serve the nation's purposes adequately.

The welfare reform of 1996, whatever else it accomplished, forced a recognition of the fact that working mothers were here to stay, and that many of them needed and deserved help in obtaining care of decent quality for their children. It was accompanied by a considerable increase in federal and state funds devoted to paying for child care, but computed on any rational basis, the expansion has by no means been sufficient to fill the need. Current appropriations still cover only a small proportion of those eligible to receive help under present rules, to say nothing of those who are not now eligible but arguably should be.

COSTS AND PRICES

Full-time care for a child under five is a "big-ticket item." We can estimate that parents working full time paid an average of $7,777 per child for licensed care in a center in the year 2000. Those who used family day care, most of which is unlicensed and unregulated, paid an average of $6,413.[3] Some families had a relative who provided child care at no charge, but about one-third of relatives (other than fathers) charged for care. Even a middle-income family with two preschool-aged children in licensed care has a large financial burden.

The high price of child care is a crucial aspect of the "affordability" problem. For a large number of families, paying these prices means parting with a painfully large portion of their incomes. For some parents, the price of child care keeps them from working. Other parents put their children into affordable but low-quality care that is so poor, it may even bring harm. Still other parents use so much of their income for child care that they are unable to buy the basic goods and services they need to live decently.

Is the price of child care too high? The only prices that economists would characterize as too high occur in situations where competition is absent or weak, and where the price-setter can take advantage of the customers' lack of alternative sellers to raise prices far above costs. The child care industry is marked by vigorous competition and relative ease of entry for new competitors, so we do not see prices unreasonably elevated above costs. In the for-profit part of the industry, revenues are close to costs and the margin of profit is low. The nonprofits receive some help from government programs and private sources, but they, as well as the for-profit centers, depend heavily on fees to cover their costs. We can conclude that it would be impossible to reduce fees significantly by reducing profits or surpluses.

Could costs be reduced? Labor costs are 70 percent of the total cost of child care centers (Cost, Quality, and Child Outcomes Study Team 1995) and an even larger share of the cost of other modes of care. Child care inevitably takes a lot of labor time; providers cannot hope for the steady evolution of labor-saving machinery, which raises productivity and cuts cost through time in most other modern industries. (The only labor-saving machinery available for this industry is television, and its extensive use degrades the quality of care.) If child care providers try to economize on labor by giving care givers larger groups of children to supervise, quality will suffer. This is not to say that every child care center is optimally managed; undoubtedly some providers could achieve cost-savings through better management. However, the opportunities for lowering costs appear minor compared with the forces making for higher costs per child.

Prices for child care have been on an upward trend. Between 1990 and 2000, while the overall consumer price index was rising by 29 percent, fees child care centers and nursery schools charged were rising by 56 percent.[4] We can expect this upward trend in child care prices, relative to prices charged for other goods and services, to continue. As most other industries experience rising labor productivity over time, we can expect a resumption of the economy-wide upward trend in real wages which, until relatively recently, has been a long-run feature of Western economies. Rising wages will have an especially heavy impact on costs and prices in a labor-intensive industry such as child care. Upward changes in the legal minimum wage will also raise costs in child care relative to costs in other industries. Moreover, a successful campaign to improve child care quality would accentuate the rise in costs because it would require better trained and better paid workers.

Thus, when we talk about making child care affordable, we are not talking about reducing costs. On the contrary, costs are rising, and we can expect them to continue to rise over time, relative to the costs of most other goods and services. Whatever the inflation rate we have in the general level of prices, the rise in child care costs and prices is likely to exceed it by a considerable amount. So reducing child care costs is not something we can realistically hope to achieve through any sort of government policy. The only way to make child care affordable to families with children is to transfer the burden of some or all of those unavoidably high costs from parents to some other set of persons.

CHILD CARE AFFORDABILITY FOR FAMILIES MOST IN NEED

We now take a closer look at the question of affordability. The question is what amount constitutes affordable child care, and how much of the cost of child care should be born by public subsidies, given a family's size and financial circumstances. Obviously, reasonable people would differ on such a question. Nevertheless, by looking at particular cases it is possible to zero in on an idea of affordability which, if not meeting everybody's exact standard, would be considered reasonable by most people.

It makes sense to start our discussion of affordability with the simplest and most obvious case, that of a single mother, working full time at a minimum wage job. We will assume she has two children, ages one and three. She may never have been on welfare, or perhaps recently moved off. In the former case, she is likely getting no help at all in paying for child care from any current government program. The case of the low-wage single mother is not one that politicians find the most compelling. People like her don't vote in large numbers, and single mothers who need help are not popular with large segments of the American public. Arguably, her plight is likely to have been the result of unwise behavior: having children out of wedlock or having them within wedlock in a marriage headed for breakup. Nevertheless, hers is a good case to start with because her need is so stark, obvious, and understandable. And whatever her history, she is now working and thus "playing by the rules."

Obviously, a low-wage, single mother needs someone to care for her children while she works. Some people assume that the typical single mother has a relative who is willing to provide quality care for her children for free (Kaus 1992), but that is not the reality (Presser 1989). Currently about half of working single mothers do get free care, mostly from relatives,[5] although some of those arrangements are far from ideal. But the other half—those who must pay—is our main concern.

What is affordable child care for a family headed by a low-wage single woman? One obvious way to think about the family's ability to pay for child care is to see how much money the family takes in during a year, and how much it would cost to buy the goods and services (other than child care) that would provide a poverty-line standard of living. Out of her income the mother needs to pay taxes, buy adequate food, pay for housing, and see that other necessities such as transportation to work, clothing, and toiletries are paid for. We have left medical expenses out of the list because she is eligible for Medicaid. After accounting for these minimal necessities, we can see how much money is left over to cover the cost of providing care for the family's children. If the amount remaining is insufficient to buy care of an acceptable quality, then keeping this family at a poverty-line standard of living would require some form of government help to make child care affordable.

The financial situation of the family of our working single mother in the year 2000 is summarized in Table 1. The first panel of the table gives information on the amount of money the mother will have to live on. Working at the minimum wage of $5.15 for 40 hours a week, 52 weeks a year, would bring in $10,712 per year. To see how much money she will have available to spend—her disposable income—we subtract from her wage income the taxes the family owes and add in any benefits she will be entitled to. This family's income is too low to owe any federal or state income taxes, but it does pay Social Security taxes of $819. Offsetting this subtraction are several government benefits which families with an earned income this low are entitled to receive: the Earned Income Tax Credit (EITC) of $3,888 and food stamp benefits of $1,955. After these subtractions and additions, we arrive at a disposable income of $15,736.

The second panel of the table gives two alternative assessments of what a minimally decent standard of living would cost this family. The first is the official U.S. poverty line figure of $13,898. The poverty line is specified as the cost of a thrifty food budget multiplied by three. It is revalued yearly, to take account of price changes. The official poverty measure was set up in the early 1960s, when most families with children had a stay-at-home mother. Child care needs were thus

Table 1 Financial Situation of a Single Mother with Two Preschool Children in a Full-Time, Minimum-Wage Job, 2000

Ability to spend	
Pre-tax wages[a]	$10,712
Federal and state income taxes	0
Earned income tax credit	3,888
Social security taxes	–819
Food stamps[b]	1,955
Disposable income	15,736
Minimum budget, excluding child care	
Official poverty line	$13,898
Required expenditure for food, clothing, shelter, transportation, and services[c]	15,587
Cost of child care[d]	
Center care for two children, ages 1 and 3	$13,460
For family day care	12,826

[a] Assumes work of 40 hours per week, 52 weeks per year at the 1998 minimum wage of $5.15.

[b] The family may be eligible to receive additional food stamps equal to 30 percent of expenditures on child care, up to a maximum of stamps worth $1,350 in a year. Food stamp benefits may also be increased for those paying relatively high rents.

[c] According to the National Academy of Sciences budget (exclusive of child care and health insurance).

[d] Derived from census data.

not allowed for, and it is reasonable to characterize the official poverty-line income as representing one estimate of the cost of a minimal budget, exclusive of child care costs.

The second assessment shown in the panel is based on the work of a committee of experts assembled by the National Academy of Sciences (NAS) in the early 1990s. By then, it was obvious that child care costs needed to be taken into account. The NAS experts concluded that there should be a new official poverty line based on a detailed family budget, rather than on the "food cost times three" calculation that has been used to calculate what is now the official poverty line.[6] The detailed budget provides a more realistic accounting for minimal needs for food, clothing, shelter, transportation, services, and taxes, better consideration of health care needs, and of the child care needs of employed parents.[7] One version of the NAS's minimal basic budget for a family of this composition, exclusive of taxes and health insurance and exclusive of child care costs, would come to $15,587 for the year 2000. The disposable income provided by the minimum wage and other benefits that a parent earning the minimum wage receives is just about par with the amount the NAS decided this three-person family needs to spend in order to have a poverty-line package of goods and services. To be precise, our sample mother would have $149 remaining after following the NAS budget.

The third panel in Table 1 gives two alternative amounts for the cost of care. The first is the average cost of full-time center care for two children, ages one and three, a total of $13,460.[8] The second alternative is the average cost of family child care, much of which is unregulated or unlicensed.

It is obvious that this mother can bear little of the burden of paying for child care. Her disposable income will virtually be exhausted in purchasing the goods and services needed for a poverty-line standard of living, whichever of the two poverty lines one adopts. What she has left over would finance only a fraction of the cost of caring for one child; it would certainly not cover the cost for the care of two, regardless of the form of care. If the family is required to divert anything but a small portion of its disposable income to pay for child care, it will be forced below a poverty-line standard of living. It seems reasonable, then, to say that the only affordable price this family can pay for child care is close to zero.

What is the rationale for government action to make child care affordable for this family? Action is clearly needed if our society wants to adhere to the principle that when people work and thus "play by the rules" in this richest of all countries, they should have a standard of living that meets some basic minimum and their children should have care of a decent quality. Of course, not everyone is willing to subscribe to the proposition that such a family ought to be helped with child care costs. Some argue that people whose income doesn't allow them to support children decently and pay for good quality care out of their own resources simply shouldn't have children. In this view, if they do have children, it is best if they (and the children) suffer the consequences; government help to them would merely encourage irresponsible behavior and dependency in themselves and others.

When considering both sides of this argument, it is important to remember that we are talking about a mother who works full time all year round at an unskilled job, perhaps cleaning offices or hotel rooms, who has nobody with whom to share family chores, and who is raising children who will be future citizens, future earners, and future taxpayers. Many of the nation's children live in families with characteristics similar to these. The question at hand is whether we as a nation want to insure that such children and their parents do not have a standard of life lower than the poverty line.

AFFORDABLE CHILD CARE FOR FAMILIES ABOVE THE LOWEST-EARNING BRACKET

We now go on to consider the situation of families with more than minimum-wage earnings who have no government help with child care costs. The single mother we have been using as an example would need a wage rate almost three times the minimum wage in order to live above the poverty-line level and pay the average price of care for her children without government assistance. Referring again to Table 1, we can see that she would have to spend $13,898 in order to buy the goods and services providing a standard of living at the official poverty level, and she would have to pay an additional $13,460 for child care. To be able to spend those sums she would need a disposable income in the year 2000 of $27,358.[9] To have a disposable income that large she would need to earn a wage of $29,655 because she would have to pay federal and state income taxes. (The figures quoted here are based on the state tax rates in Colorado.)[10] Only about 21 percent of single mothers earn that much; the median wage earned by single mothers who are employed was under $19,000 in that year.[11]

In Table 2, the results of this kind of calculation is shown for single parents and for couples with differing numbers and ages of children. We assume that preschoolers need full-time care and any school-age children need after-school and summer care. The table shows, for example, that a couple with four children would need almost $44,000

Table 2 Estimates of the Wage Income Required to Maintain a Poverty-Line Standard of Living and Pay for Child Care in a Center, for Families of Various Sizes and Compositions, 2000

Number of children		Family type and income characteristics					
		Poverty line ($)		Disposable income needed ($)		Pre-tax wage needed ($)	
Under 5	School-age	Single	Married	Single	Married	Single	Married
0	1	11,889	13,885	13,712	15,708	11,787	12,965
1	0	11,889	13,885	18,642	20,638	18,661	21,276
0	2	13,898	17,493	17,544	21,139	13,644	18,928
1	1	13,898	17,493	22,474	26,069	22,308	27,347
2	0	13,898	17,493	27,358	30,953	29,655	34,035
1	2	17,554	20,586	27,953	30,985	29,988	33,552
2	1	17,554	20,586	32,837	35,869	36,194	39,340
2	2	20,271	23,049	37,377	40,155	40,970	43,788

SOURCE: Computed by the author based on tax and benefit rates. The state tax formula used is that of Colorado. The care of children under 5 is assumed to cost the average amount indicated by the census survey of 1993. One child under 5 is assumed to be one year old. A second child under 5 is assumed to be three years old. The poverty lines for 2000 are based on those for 1999 updated by price changes through July 2000.

in wages to live at a poverty-line standard and afford center care for those under school age and after-school care for those in school. That means that a couple with four children who didn't have an income that large would have to choose between center care of average quality for their children and living at a standard below the poverty line. The table thus demonstrates in a simple way an important truth: parents with substantial middle-class incomes need help paying for child care if they are to have a standard of living that even comes up to that permitted by a poverty line income. As we shall see, there is a sensible argument for extending help with child care costs to families with wage incomes considerably above those indicated in Table 2.

A WORKABLE DEFINITION OF AFFORDABLE CHILD CARE

The argument so far has demonstrated a simple proposition: if working families with children are to have living standards that at least come up to the poverty line, we need to provide child care subsidies to families with incomes considerably above the poverty line. There are three important characteristics to a program that provides affordable care.

First, families with incomes at or below the poverty line should pay little or nothing for child care. Families with incomes above the poverty line should be required to spend on child care only some fraction of the amount by which their income exceeds the poverty line. That would guarantee that working families with children would not have to endure a below-the-poverty-line standard of living because of child care costs. We believe this to be the core of any reasonable definition of affordability. Second, the subsidy paid out of government funds, together with the co-payment required of the parents, should be enough to buy care of a respectable quality. Finally, if the subsidies for child care are phased out for the higher-income groups, they should be phased out gradually. If a family's income rises, the subsidy to which it is entitled should not as a result decrease by even more, leaving the family worse off.[12]

Table 3 shows four variants of a subsidy plan that would have the characteristics we have laid out, as applied to a couple with one three-year-old child (Panel A), and to a couple with an infant and a three-year-old (Panel B). Families receiving the benefit would be required to make a co-payment at a rate equal to some percentage of their income above the poverty line. A family at or below the poverty line makes no co-payment and receives a benefit equal to the full cost of care. The table shows benefits under four different co-payment rates, ranging from 50 percent down to zero.[13] In Panel A, subsidies and parents' co-payments add up to $6,707, our estimate of what center care of average quality would cost for a three-year-old in the year 2000. In Panel B the cost of care for the two children would be $13,460.

What is our ideal co-payment rate? The answer depends on the extent to which we think taxpayers should help parents—particularly

Table 3 Annual Child Care Benefits and Co-Payments for Parents Choosing Center Care, under Four Rates of Co-Payment

A. Benefits for a couple with one 4-year old ($)

Rate of co-payment	50%		30%		20%		0%	
Income	Child care benefit	Parents pay	Child care benefit	Parents pay	Child care benefit	Parents pay	Child care benefit	Parents pay
10,000	6,707	0	6,707	0	6,707	0	6,707	0
15,000	6,150	558	6,373	335	6,484	223	6,707	0
20,000	3,650	3,058	4,873	1,835	5,484	1,223	6,707	0
25,000	1,150	5,558	3,373	3,335	4,484	2,223	6,707	0
30,000	0	6,707	1,873	4,835	3,484	3,223	6,707	0
35,000	0	6,707	373	6,335	2,484	4,223	6,707	0
40,000	0	6,707	0	6,707	1,484	5,223	6,707	0
45,000	0	6,707	0	6,707	484	6,223	6,707	0
50,000	0	6,707	0	6,707	0	6,707	6,707	0
55,000	0	6,707	0	6,707	0	6,707	6,707	0
60,000	0	6,707	0	6,707	0	6,707	6,707	0
65,000	0	6,707	0	6,707	0	6,707	6,707	0
70,000	0	6,707	0	6,707	0	6,707	6,707	0
75,000	0	6,707	0	6,707	0	6,707	6,707	0
80,000	0	6,707	0	6,707	0	6,707	6,707	0
85,000	0	6,707	0	6,707	0	6,707	6,707	0

B. Benefits for a couple with a 1-year old and a 3-year old ($)

10,000	13,460	0	13,460	0	13,460	0	13,460	0
15,000	13,460	0	13,460	0	13,460	0	13,460	0
20,000	12,207	1,254	12,708	752	12,959	501	13,460	0
25,000	9,707	3,754	11,208	2,252	11,959	1,501	13,460	0
30,000	7,207	6,254	9,708	3,752	10,959	2,501	13,460	0
35,000	4,707	8,754	8,208	5,252	9,959	3,501	13,460	0
40,000	2,207	11,254	6,708	6,752	8,959	4,501	13,460	0
45,000	0	13,460	5,208	8,252	7,959	5,501	13,460	0
50,000	0	13,460	3,708	9,752	6,959	6,501	13,460	0
55,000	0	13,460	2,208	11,252	5,959	7,501	13,460	0
60,000	0	13,460	708	12,752	4,959	8,501	13,460	0
65,000	0	13,460	0	13,460	3,959	9,501	13,460	0
70,000	0	13,460	0	13,460	2,959	10,501	13,460	0
75,000	0	13,460	0	13,460	1,959	11,501	13,460	0
80,000	0	13,460	0	13,460	959	12,501	13,460	0
85,000	0	13,460	0	13,460	0	13,460	13,460	0

middle-class parents—with the burden of child care costs. The co-payment rate determines how high the parents' incomes will be when the aid for child care goes down to zero. In Panel B of Table 2, a 50 percent co-payment rate cuts off aid to couples earning $45,000 or more, while a 20 percent rate extends aid to couples making almost $80,000.

The zero co-payment rate provides free care to all children, regardless of family income. This is the same provision that is made when children enter public school a few years later. Some countries subsidize considerable amounts of child care to the same extent they subsidize elementary and secondary schooling. For example, France provides free preschools for all children between two and six, run by the public school system. Care for the hours before and after school is available for modest fees (Bergmann 1996). The Canadian province of Quebec has a publicly subsidized child care system that provides care for $5 a day, regardless of the parents' income (Peritz 2000).

While there is no scientific answer to the question of which co-payment rate is best, there are some considerations pointing to a rate toward the low end of the spectrum. If the co-payment rate is higher, parents will receive less help and be more likely to ignore the subsidized programs and instead seek bargain-basement care from unlicensed providers. So a higher rate will on average result in lower-quality care for children. It would be good public policy to give parents an adequate incentive to use licensed care. Subsidies which pay part of the cost of care that is of better-than-minimally-acceptable quality do provide an incentive, especially if their use is restricted to providers that meet such quality standards. But subsidies that pay only a low share of the cost give only a weak incentive, especially for parents with low-to-middle incomes.

The co-payment can be thought of as a special tax the family pays, and it must be paid on top of the other taxes the family owes. Under a 50 percent co-payment rate, the family would retain a relatively minor share of its above-poverty spending power to use for its other living expenses; for that reason, and because of its harshness, we consider it much too high. The phaseout of benefits used in some state child care subsidy plans under the Child Care and Development Fund program (CCDF) is equivalent to a co-payment rate of about 30 percent. The phaseout of the EITC is equivalent to a rate of 16–20 percent. Couples with pre-tax income up to about $50,000 are taxed at 15 percent.

If co-payments are charged, the best case can be made for a rate no higher than 20 percent of income over the poverty line. Another reasonable configuration would be a modest flat fee of perhaps $5 a day per child, with rebates for families close to the poverty line. Obviously, there are other, more complicated designs that might serve.

SHOULD THE GOVERNMENT PAY?

Any adequate national child care program would involve a considerable increase in government spending for child care, on the order of tens of billions of dollars annually. Is this the only way it could be financed? Are there other sources of financing that might make major contributions? The attacks by conservatives on "big government" and on policies of "tax and spend" that have gone on since the 1970s have been very successful in conveying the idea that new high-cost public programs should never be considered, and that some of the ones we already have (particularly Social Security and the public schools, although not defense) are ripe for dismantlement. Furthermore, President Bill Clinton's statement that "The era of big government is over," appeared to put beyond the pale any ambitions for a public program of the type and magnitude we are advocating.

Those who believe that large new programs are unthinkable, or at least politically infeasible, have thus tended to look elsewhere (such as employers or charitable organizations) for aid in supplying affordable high-quality child care. It is unrealistic to think that charitable contributions to child care could suffice to make up a major share of the tens of billions of dollars needed—even if those contributions expanded tenfold, they would not begin to solve the financial problems.

Those despairing of a significant increase in government provision or subsidy of child care are also attracted to the idea that employers might take a prominent role in providing resources and organizing programs. There are several reasons why employers are thought of in this connection. There is the American tradition of providing for social needs like health insurance, sick leave, and vacations through employer-provided "fringe benefits," rather than through government programs, as is done in Europe. Child care centers located in workplaces offer important advantages such as convenience and contact during the work day between parents and children.

We need to ask whether it is realistic to expect employers to contribute much to solving the country's child care problems. There is no reason to believe that employers will voluntarily provide an appreciable share of the additional billions of dollars needed every year to finance good-quality child care, or that they could be forced to do it by legislation or cajoled into it by tax incentives. On the contrary, many employers are currently making big efforts to reduce their fringe benefits, largely by keeping some of their employees in a part-time status and making part-timers ineligible for benefits. Additionally, they are reducing the amounts they pay for the health insurance of full-time workers.

Even in the unlikely event that employer help with child care expenses were to become as common as employer help with health insurance, a lot of people would still be without coverage. We would be left with the same spotty picture we have today in health insurance, where the concept of transitioning from employer-coverage to universal coverage is increasingly more difficult and more complicated. In regard to child care, it is perhaps fortunate that employers provide as little help as they do.

TAX BREAKS VERSUS PROVIDER PAYMENTS AS A MODE OF FINANCE

A rationalized system of child care finance, especially for children under four, would concentrate on just one of the two modes of help we now have for parents with child care expenses—either the block grants to the states which finance payments to child care providers or the tax breaks which reimburse parent expenses—and eliminate the other. A one-mode system would be more efficient to operate and would make clearer the extent of the system's generosity and equity.

If one of the existing systems is to be expanded, which should it be? One possibility would be to expand the tax break mode we now use to finance child care help for the middle class and use it as the basis of a larger and more inclusive system of help to parents with child care expenses. That would mean increasing considerably the tax benefits available to lower-income families, and making the tax credits refundable.

It seems politically easier in the United States to provide social programs in the form of tax breaks than it is to get Congress to finance them by appropriations. Conservatives say that expenditures "spend the people's money," while tax breaks "give the money back to the people who earned it." However, this distinction is misleading. Tax breaks take money out of the treasury just as expenditures do; for this reason economists call them "tax expenditures." A dollar given to a provider to help a parent with child care fees benefits the parent and costs the government treasury no more or less than a dollar rebated to the parent by the tax authority, provided the restrictions on the parent's use of the dollar is the same in both cases.

Tax breaks are not limited by yearly appropriations. As a result, no one is turned away or put on a waiting list (as happens frequently to applicants for child care subsidies financed by the child care block grants or to applicants for housing benefits), because the amount that has been appropriated is insufficient to pay for the benefit for all those entitled to it. The entitlement aspect to benefits distributed through the tax system is certainly an advantage from the point of view of those who would like to see more expenditures on behalf of child care, and more equity in the distribution of those expenditures.

There are some important disadvantages to using the tax system to fund child care subsidies. First, the size of the subsidies that are needed for low-income families are large. A low-income family with three preschool children might require $20,000 a year or more in child care subsidies, and subsidies of this magnitude, so out of proportion to any taxes owed, would be awkward to distribute as a refundable tax break. Child care subsidies, especially those that cover a high proportion of the cost, need to be paid or reimbursed at least on a monthly basis, something the tax authorities are not in a good position to do. The administration of the EITC by the IRS has been troubled by a considerable number of fraudulent claims; the much larger amounts to be handed out in child care subsidies would make an even more tempting target for false claims.

Perhaps the most telling argument against depending on tax breaks as a financing mode relates to quality assurance. The IRS, as it is currently set up, is not equipped to pay attention to such things. A major purpose of a national child care program that would fund the considerable fees that licensed caregivers charge is that our children would be provided with good-quality care. That purpose would be nullified in a system that reimbursed fees to anybody with a Social Security number.

UNEARMARKED CASH BENEFITS

Conservatives who wish to encourage maternal care and discourage nonmaternal care tend to resist providing subsidies to paid care. They advocate instead cash benefits "for child care" that are not conditional on or earmarked for child care expenses.[14] The standard argument for them is that they give parents freedom to choose how they wish to care for their children. These unearmarked benefits are helpful to family budgets and are therefore useful in providing a better living standard for children. However, if they are set up as a total replacement for subsidies earmarked for nonmaternal child care, they are harmful because they lack a major characteristic of earmarked subsidies: encouraging parents to upgrade the quality of the care their children get. A family receiving an extra cash payment worth several thousand dollars labeled "for child care" but which they can spend any way they want, may spend some of it to improve their child's care. But they are unlikely to spend all of it, or even most of it, in this way. This is particularly true if the family has a low income and is lacking many of the goods and services commonly thought necessary to maintain a decent lifestyle. By contrast, a voucher worth several thousand dollars that can only be used to purchase licensed care may succeed in shifting a child from unlicensed care to licensed care.[15]

To drive the point home, we can draw the analogy to methods of giving health care benefits. The only way for children to be covered by health insurance is to have them signed up for health insurance, with the government payment going to the providers. Nobody would imagine that a $3,000 unearmarked payment "to help families buy their children health insurance" would have as much impact on the number of children covered, or on the quality of the coverage, as would the presentation to the family of a noncashable voucher for the health insurance itself. Similarly, a $3,000 cash benefit that was sent in an envelope marked "to help the family pay its child care bills" would have much less impact on the quality or type of care that was bought by the family for the child than a voucher worth $3,000 which could only be used to pay part of child care bills.

THE COST OF MAKING CHILD CARE AFFORDABLE

A new national plan is needed that would build upon and go beyond our present system in terms of number of families helped and the degree of help. We present here three plans so that their virtues, defects, coverage, and costs can be compared. The plans differ in terms of how many families would receive help, the extent of the help they would receive, the quality of the care that each plan would offer, and, of course, what each plan would cost.

Plan 1—Fully Fund the Current Programs

A relatively modest interim plan would provide the resources to subsidize all families who are currently eligible for help under the programs that already exist in each state. These programs, largely financed by the federally funded Child Care and Development Fund (CCDF), now give benefits to only 10–15 percent of those who are eligible. Providing benefits to all income-eligible families nationally *who currently have their children in paid care*, and allotting child care subsidies as well to 60 percent of welfare recipients, is estimated to cost $19 billion a year.[16]

Reimbursements to providers would total $22 billion, of which $3 billion or 12 percent would be covered by parents' co-payments. The states might bear some of this cost, as they do under the present program, but presumably the federal government would continue to pay the lion's share. This program would give benefits to an estimated 9 million children, as compared with the 1–2 million currently estimated to be getting benefits under the federal block grants and associated state funds.[17]

The child care subsidy programs operating under the CCDF have major weaknesses in addition to the insufficient funding: 1) help is cut off abruptly as a family's income rises, leaving many families with moderate incomes without access to affordable care, as we have defined it, and 2) the reimbursement rates to providers that the programs allow are not based on quality considerations. The interim plan does not cure these two latter weaknesses. That is done by the second plan presented below.

Plan 2—Affordable Care of Improved Quality

A national plan that would be a worthy longer-term goal would allow all families, not just those with the lowest incomes, access to affordable care, as we have defined it. It would offer reimbursement rates to providers that would pay the cost of providing all children with care at a level of quality equal to the current national average. It would also incorporate a system of giving providers a bonus payment if they achieved higher quality. And as a family's income rises, the subsidies would be phased out gradually. The subsidy to which a family is entitled would not decrease by more than its increase in income, leaving the family worse off.[18]

What quality of care would this program finance? This would be determined by the amount providers would be allowed to charge, and by the licensing and inspection system that would oversee the eligible providers. Data from the study of Cost, Quality, and Child Outcomes in Child Care Centers (CQO) (Cost, Quality, and Child Outcomes Study Team 1995) allow us to relate the quality of the service provided to its cost. Using standard techniques, the study rated the quality of centers, giving scores from 1 to 7. Centers scoring 3 are designated in this system as "minimally adequate"; centers that use what child care professionals call "developmentally appropriate practices" are rated 5 and are given the designation "good." The average grade given centers in the study was 4. Average annual cost per child for centers rated 4, updated to prices charged in the year 2000, would be \$7,380, and for those rated 5, \$8,527.[19]

If we sent all child care providers a fee typical of providers giving care rated as "good," we would be paying for a standard that only a distinct minority of the nation's child care providers currently meet. Only

24 percent of the care provided to preschoolers by centers observed by the CQO study were given a rating of "good" or better. Centers providing care of that quality for infants and toddlers were even rarer: only 8 percent of the care they received in centers observed was rated "good" or better (Cost, Quality, and Child Outcomes Study Team 1995, pp. 26–27). The care in family day care homes and that given by friends and relatives is likely to be poorer still on average.

It would seem sensible to pay for the quality standard that the average provider currently meets (a grade of 4, which, of course, about half do not meet), which would entail paying centers $6,339 for preschool children and $10,865 for the care of infants. We have set the reimbursement for family child care at $5,300 and $8,550, respectively. In estimating the cost of the program, we have included funds to allow extra payments ($1,150 annually per child) to providers whose quality reaches the "good" level.[20] These extra funds would provide an incentive to improve care, and be available to finance better pay for child care workers.

Table 4 gives examples of the benefits this program would pay. For single parents with one infant using center care, subsidies would be available for those with incomes below $65,560. A single parent with an infant and a preschooler would be partially subsidized for incomes up to $99,153. The final example given is the married couple with a single child in elementary school, needing after-school and summer care. In this case, parents would not receive subsidies above an income of $22,020, because above that income the fee is less than 20 percent of their over-the-poverty-line income.

To serve children currently needing care, plus those children of mothers expected to transit from welfare to work under this plan would, I estimate, cost $37 billion per year. If one-third of the children not currently in paid care had to be taken care of in addition, the cost of this plan would rise to $49 billion per year; the entry of two-thirds into paid care would require $61 billion. These figures include the cost of the quality bonus. Under current conditions, that would amount to 3 percent of expenditures under the program. However, if providers responded by upgrading their program quality, as would be hoped, that cost would grow.

Table 4 Illustrative Plan to Provide "Affordable Care of Improved Quality" at a 20% Co-Payment Rate

Parent(s)/child's age	Single/1		Single/1,4		Married/1		Married/10	
Cost of care ($)	10,865		17,204		10,865		1,780	
Poverty line ($)	11,235		13,133		13,120		13,120	
Wage ($)	Gov't pays	Parent pays	Gov't pays	Parent pays	Gov't pays	Parent pays	Gov't pays	Parent pays
10,000	10,865	0	17,204	0	10,865	0	1,780	0
12,000	10,712	153	17,204	0	10,865	0	1,780	0
14,000	10,312	553	17,031	173	10,689	176	1,604	176
16,000	9,912	953	16,631	573	10,289	576	1,204	576
18,000	9,512	1,353	16,231	973	9,889	976	804	976
20,000	9,112	1,753	15,831	1,373	9,489	1,376	404	1,376
22,000	8,712	2,153	15,431	1,773	9,089	1,776	4	1,776
24,000	8,312	2,553	15,031	2,173	8,689	2,176	0	1,780
26,000	7,912	2,953	14,631	2,573	8,289	2,576	0	1,780
28,000	7,512	3,353	14,231	2,973	7,889	2,976	0	1,780
30,000	7,112	3,753	13,831	3,373	7,489	3,376	0	1,780
32,000	6,712	4,153	13,431	3,773	7,089	3,776	0	1,780
34,000	6,312	4,553	13,031	4,173	6,689	4,176	0	1,780
36,000	5,912	4,953	12,631	4,573	6,289	4,576	0	1,780
38,000	5,512	5,353	12,231	4,973	5,889	4,976	0	1,780
40,000	5,112	5,753	11,831	5,373	5,489	5,376	0	1,780

42,000	4,712	6,153	11,431	5,773	5,089	5,776	0	1,780
44,000	4,312	6,553	11,031	6,173	4,689	6,176	0	1,780
46,000	3,912	6,953	10,631	6,573	4,289	6,576	0	1,780
48,000	3,512	7,353	10,231	6,973	3,889	6,976	0	1,780
50,000	3,112	7,753	9,831	7,373	3,489	7,376	0	1,780
52,000	2,712	8,153	9,431	7,773	3,089	7,776	0	1,780
54,000	2,312	8,553	9,031	8,173	2,689	8,176	0	1,780
56,000	1,912	8,953	8,631	8,573	2,289	8,576	0	1,780
58,000	1,512	9,353	8,231	8,973	1,889	8,976	0	1,780
60,000	1,112	9,753	7,831	9,373	1,489	9,376	0	1,780
62,000	712	10,153	7,431	9,773	1,089	9,776	0	1,780
64,000	312	10,553	7,031	10,173	689	10,176	0	1,780
66,000	0	10,865	6,631	10,573	289	10,576	0	1,780
68,000	0	10,865	6,231	10,973	0	10,865	0	1,780
70,000	0	10,865	5,831	11,373	0	10,865	0	1,780
72,000	0	10,865	5,431	11,773	0	10,865	0	1,780
74,000	0	10,865	5,031	12,173	0	10,865	0	1,780
76,000	0	10,865	4,631	12,573	0	10,865	0	1,780
78,000	0	10,865	4,231	12,973	0	10,865	0	1,780
80,000	0	10,865	3,831	13,373	0	10,865	0	1,780
82,000	0	10,865	3,431	13,773	0	10,865	0	1,780

(continued)

Table 4 (continued)

Parent(s)/child's age	Single/1		Single/1,4		Married/1		Married/10	
Cost of care ($)	10,865		17,204		10,865		1,780	
Poverty line ($)	11,235		13,133		13,120		13,120	
Wage ($)	Gov't pays	Parent pays	Gov't pays	Parent pays	Gov't pays	Parent pays	Gov't pays	Parent pays
84,000	0	10,865	3,031	14,173	0	10,865	0	1,780
86,000	0	10,865	2,631	14,573	0	10,865	0	1,780
88,000	0	10,865	2,231	14,973	0	10,865	0	1,780
90,000	0	10,865	1,831	15,373	0	10,865	0	1,780
92,000	0	10,865	1,431	15,773	0	10,865	0	1,780
94,000	0	10,865	1,031	16,173	0	10,865	0	1,780
96,000	0	10,865	631	16,573	0	10,865	0	1,780
98,000	0	10,865	231	16,973	0	10,865	0	1,780

Plan 3—Free Universal Care

Finally, a plan that would provide free care to all families, regardless of income, on the basis of the same fee structure as the plan to provide affordable care of improved quality, but with zero co-payments, would cost \$79–\$129 billion per year. Were such a plan to be instituted, costs would quickly reach the top of that range and soon exceed it, as most parents would use it.

Child Care Versus Other National Needs

An adequate child care program is certainly not the only desirable public program lacking in the United States. The country lacks universal access to health care, including care for mental health; adequate funding for public schools, especially in low-income areas; access to higher education for anyone who can profit from it; immediate help for those addicted to drugs or alcohol; affordable housing; adequate public transportation; and adequate social services to counter child abuse, homelessness, and other social pathologies. To create such programs or to bring the ones we have to adequacy would require major expenditures of public money. The program we have outlined to provide the United States with affordable child care of improved quality would also, as we have seen, entail major new public expenditures, year after year. How high is the priority of such a child care program? Does it belong in the list of major national needs?

The strongest case for programs of child care subsidies such as those proposed above rests on the fact that they will prevent considerable misery to children and their families. Making child care of decent quality affordable to all families would result in safer, more educational, and more enjoyable care for children, and it would give a financial boost to severly low-income families in a nonstigmatizing way. If it had no other benefits, a program providing affordable child care would be amply justified by the fact that it is an indispensable part of the cure for child poverty, which afflicts almost one in five children in the United States. It would reduce enrollment in welfare-type programs, and it would give parents a chance to participate in the world of work and achieve the gains in resources and status that such a participation allows.

We do not really have to decide whether the benefits of the child care program are greater or less than the benefits from universal access to health care or the other desirable programs that are missing in the United States. Other countries can afford all these programs by requiring higher taxes and running a lower defense budget. The simple truth is that, like them, we can afford them all.

Notes

Financial support for this study was received from the Foundation for Child Development.

1. A U.S. Census survey in 1993 (Casper 1995) reported that those families with monthly incomes less than $1,200 spent on average 25 percent of their incomes on child care while the mother worked.
2. The other causes cited by Representative Tom DeLay, Republican Whip, were the teaching of evolution and the smallness of families due to working women's use of contraceptives (Noonan 1999, p. 16).
3. The U.S. Census Bureau reports payments for 1993 (Casper 1995), and these figures have been annualized for full-time service and adjusted to the year 2000 by use of the child care component of the Consumer Price Index.
4. See http://www.bls.gov
5. Single mothers paid for 46.6 percent of child care arrangements (Casper 1995). However, many families had more than one arrangement. A mother of two might have one paid arrangement and one unpaid one.
6. The National Academy of Science method of explicit budgeting also allows one to take account of regional differences in housing costs (Citro and Michael 1995). See also Renwick and Bergmann (1993).
7. The National Academy of Science experts did not propose a standard child care cost, as was done for other types of family expenditures. In deciding whether to count a family as poor, they subtracted a family's actual child care costs from its disposable income before comparing its resources to the basic budget. This decision can be criticized on the ground that some of the free or low-cost care arrangements that families make because they have no alternative are seriously substandard.
8. The data collected by the "Cost, Quality, and Outcomes" study permits an estimate of the costs associated on average with each level of quality. These reported costs were updated to the year 2000 using the child care component of the Consumer Price Index. The average quality of care currently given in centers is better than "minimally adequate," but it does not reach the standard the experts have rated "good" or "developmentally appropriate."

9. We are assuming she receives health insurance from her employer. If she doesn't she would need a still higher wage income, because the poverty line includes nothing for health care.
10. At that wage she would no longer be eligible to benefit from the EITC or food stamps, and she would have to pay $2,598 in Social Security taxes. She would benefit from the recently enacted $500 per child federal tax credit and the tax for dependent care expenses. She would end up paying $1,103 in federal income tax. In most states, she would have to pay a state income tax; in Colorado, the state we are using as an example, it would amount to $364.
11. Computed by the author from wages reported by single mothers in the 1999 Current Population Survey, which refers to incomes for the year 1998. The wages quoted were converted into dollars of the year 2000.
12. This condition is violated by current state plans. Under the federal rules which govern it, an increase of income of a few dollars can reduce the subsidy by thousands of dollars.
13. In theory, a phaseout rate of 100 percent would be possible. However, losing a dollar in child care benefit for every dollar gained in pre-tax income would leave the family worse off the more income it earned. It would have to pay tax on each dollar of new income, so it would lose $1 of benefit but gain less than a dollar in spending power. In practice, 50 percent is close to the fastest rate of phaseout of the child care benefit for the lower income groups that would allow them, when their wage income rises, to have more income left over after paying for child care rather than less. The reason is that as their income rises, their benefits from the EITC and food stamps are being reduced and the Social Security tax has to be paid.
14. This kind of counterproposal was made, for example, by President George Bush who, when the Congress then controlled by the Democratic party, made child care subsidy proposals during his administration.
15. Undoubtedly, some unlicensed care is of high quality. If some forms of care, such as relative care, cannot be licensed or are unlikely to be licensed, then there will be cases where giving a subsidy causes a child to be shifted from higher- to lower-quality care. However, most studies suggest that licensed care is on average superior to unlicensed care, relative care included.
16. These estimates do not take into account large differences in child care costs from one area to another within the United States. Some are due to differences in average quality and in the cost of living. Such differences would considerably complicate the design of a national program.
17. Estimated by the author on the basis of Congressional estimates that about 1 million families are covered by various child care programs, as of 1997 (U.S. House of Representatives, Committee on Ways and Means 1999).
18. This condition is violated by current state plans under the CCDF. Under the federal rules which govern it, an increase of income of a few dollars can reduce the subsidy by thousands of dollars.

19. These figures were derived from the data generated by the CQO study, increased by the change in child care prices, as measured by the child care index of the Consumer Price Index, between mid 1992 and February 2000.
20. This amount is the estimated difference in costs between centers graded 4 and 5 by the "Cost, Quality, and Outcomes Study," taking into account 1998 child care prices.

References

Bergmann, Barbara R. 1996. *Saving Our Children From Poverty: What the United States Can Learn From France*. New York: Russell Sage Foundation.

Casper, Lynne M. 1995. "What Does It Cost to Mind Our Preschoolers?" *Current Population Reports*, P70-52. U.S. Bureau of the Census, Washington, D.C., September.

Citro, Constance F., and Robert T. Michael. 1995. *Measuring Poverty: A New Approach.* Washington, D.C.: National Academy Press.

Cost, Quality, and Child Outcomes Study Team. 1995. *Cost, Quality, and Child Outcomes in Child Care Centers, Public Report.* Economics Department, University of Colorado at Denver.

Kaus, Mickey. 1992. *The End of Equality.* New York: Basic Books.

Noonan, David. 1999. "Seven Days: The Last Word on Last Week." *New York Daily News*, June 20, p. 16.

Peritz, Ingrid. 2000. "Tired of the Kids? Try 24-Hour Day Care; Quebec Tests Program Aimed at Shift Workers." *The Globe and Mail*, August 31.

Presser, Harriet B. 1989. "Some Economic Complexities of Child Care Provided by Grandmothers." *Journal of Marriage and the Family* 51(August): 581–591.

Renwick, Trudi J., and Barbara R. Bergmann. 1993. "A Budget-Based Definition of Poverty, With an Application to Single-Parent Families." *Journal of Human Resources* 28(1): 1–24.

U.S. Bureau of Labor Statistics. 2000. "Families with Own Children: Employment Status of Parents by Age of Youngest Child and Family Type, 1998–99 Annual Average," http://stats.bls.gov/news.release/famee.t04.htm.

U.S. House of Representatives, Committee on Ways and Means. 1999. *The 1998 Green Book*. Washington, D.C.: Government Printing Office.

The Economics of Work and Family

Jean Kimmel
and
Emily P. Hoffman
Editors

2002

W.E. Upjohn Institute for Employment Research
Kalamazoo, Michigan

Library of Congress Cataloging-in-Publication Data

The economics of work and family / Jean Kimmel and Emily P. Hoffman, editors.
p. cm.
Includes bibliographical references and index.
ISBN 0-88099-246-8 (hardcover : alk. paper)—ISBN 0-88099-245-X (pbk. : alk. paper)
1. Work and family —United States. I. Kimmel, Jean. II. Hoffman, Emily P.
HD4904.25.E29 2002
306.3'6—dc21
2002012699

W.E. Upjohn Institute for Employment Research
300 S. Westnedge Avenue
Kalamazoo, Michigan 49007–4686

Cover design by J.R. Underhill.
Index prepared by Diane Worden.
Printed in the United States of America.