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Clinton's Child Care Proposals:
The Mediocre, the Bad and the Ugly

On January 7, President Clinton presented his proposals for expanding the federal government's role in child care. These proposals combine one mediocre and several objectionable ideas. Specifically:

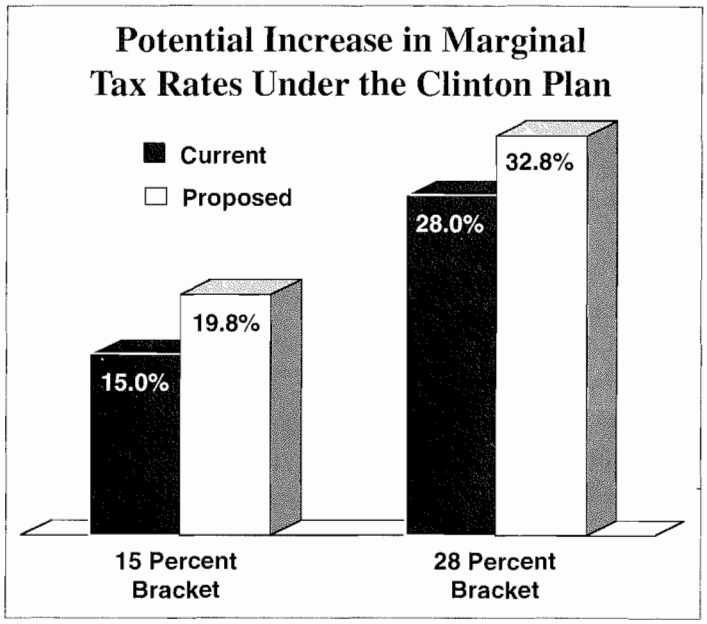
- The mediocre: increasing family tax credits for child care, while at the same time raising marginal tax rates for middle-income families.
- The bad: giving state governments money to spend on child-care subsidies, rather than giving families more direct tax relief.
- The ugly: giving state governments money to increase regulation of child care, which will almost certainly increase the cost (without a commensurate increase in quality) and price more families out of the market for child care.

It is ironic, given the impending bankruptcy of the Medicare trust fund, that Clinton would fund two-thirds of the cost of these proposals by drawing on planned savings in Medicare expenditures. The other one-third is supposed to come from the settlement with tobacco companies.

The Mediocre. President Clinton wants to raise the Child and Dependent Tax Credit for most families with adjusted gross incomes of $60,000 or less. Currently, families earning $10,000 or less can get a credit equal to 30 percent of their child-care expenses. That is, for every dollar they spend on child care, they get a 30-cent tax rebate from the government. The credit is reduced on a sliding scale from 30 percent to 20 percent for those with incomes between $10,000 and $28,000 and remains at 20 percent for those with incomes above $28,000. The maximum expenses eligible for the tax credit are $2,400 per child up to $4,800 per family, for a maximum tax benefit of $1,440.

Clinton would raise the credit to 50 percent for families making $30,000 or less and reduce it on a sliding scale (down 1 percentage point for each $1,000 increase in income) until it reached 20 percent for families making $60,000 or more.

This plan has the virtue of giving relief to taxpayers. But it also has vices. One is that it would raise marginal tax rates for middle-income people. Each additional $1,000 of income increases a family's tax liability by as much $48. Families in the 15 percent tax bracket could face a 19.8 percent tax rate. Similarly, a family in the 28 percent bracket could see its marginal tax rate increase to 32.8 percent. [See the figure.] One way to avoid raising marginal tax rates would be to raise the child-care tax credit to 30 percent of eligible expenses for everyone.



Another vice is that it retains the current tax law's bias against other family members who provide day care. Parents who hire a stranger to look after their children get a tax break not available to those who get grandparents, aunts or other family members to provide care free of charge. The proposal also does nothing to cut the cost of day care for people with family incomes over $60,000, even though it is potential second earners in these families who, because of high marginal tax rates on their income, are most likely to leave the labor force when they have a child.

The Bad. Clinton would increase the block grants that state governments can use to provide subsidies to low-income working parents. The current subsidy, $3 billion a year, would increase to $5 billion a year by 2003. Why is this bad? For three reasons.

First, it weakens the link between the payer and the provider. The larger the government's role in funding child care, the weaker the parent's role. When parents pay for their own day care, the providers must be accountable to parents. When governments pay for day care, the providers must be accountable to governments.

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In 1996, the *Washington Post* published an investigative report about day care centers in Washington, D.C., that failed to meet health and safety standards. As Cato Institute analyst Darcy Olsen pointed out, these centers included the city's largest providers of tax-funded child care — which continued to receive government funds regardless of conditions.

Second, taxpayer funding of child care makes the day care facility more susceptible to government regulation, and that is likely to raise costs. (More on this below.)

Third, why should some people be forced to pay for other people's child care? Most people, including low-income people, accept responsibility for funding their own children's care. Those of us who are parents should. After all, we chose to have the children. Subsidization already weakens that feeling of responsibility. Further subsidies will weaken it further.

The Ugly. The worst of the Clinton proposals, per dollar spent, is the $500 million subsidy over five years to state governments for enforcement of child care standards. According to the National Health Care Survey conducted for the U.S. Department of Health and Human Services in 1990:

- Fully 96 percent of all parents were "satisfied" or "highly satisfied" with their child care arrangements.
- Strikingly, 95 percent of families with annual incomes below $15,000 were "satisfied" or "highly satisfied."

No wonder Mrs. Clinton found the child-care crisis to be so silent.

Why, then, do the Clintons think more regulation is needed? The reason is that they judge child care not by whether the parents are satisfied, but rather by whether child-care facilities meet the standards promulgated by the federal government and by child care "experts." President Clinton emphasized high wages and accreditation of child-care providers, for example, as two important ways to judge quality. Both the feds and the experts judge child care mainly by the number of children per adult caregiver, by the credentials of the caregivers and by the overall number of children cared for. Yet a Rand Corporation study found that parents do not value these factors per se. Rather, suggested the study's authors:

> [P]arents may be purchasing other features of care harder to measure (and regulate) but just as important to quality — for example, a loving caregiver, stable care, inculcation of moral or religious values, reliability of care, safety or an educational program.

The likely form of day care regulations is clear. They would emphasize easily measurable inputs, not the most important output — parental satisfaction. The National Research Council already has proposed mandating standards even for configuration of physical space at day-care facilities. According to the NRC's report:

> Space should be well organized, orderly, differentiated, and designed for children's use. Specific activities should have assigned areas within a child care center or family day care home (e.g., an art table, a dramatic play corner, a building-block corner, a reading corner).

The report's authors might as well have added, "and don't let us catch you pesky little kids being dramatic at the art table." Whoever wrote that report clearly had no concept of children's play or children's learning.

The Risk of a Real Child-Care Crisis. The subsidies to state regulators are virtually guaranteed to beget more regulation. State regulators, given the proclivities of those most active in pushing for such subsidies, would likely require credentials for day-care providers, a minimum number of providers per number of children and particular arrangements and uses of space. All three would increase the cost of day care and, ironically, sow the seeds of a real child-care crisis.

True, parents do not always make the best decisions for their children. But they do much better at it than government strangers who would establish and enforce day-care regulations. Moreover, government inspectors likely would show up at a given day-care facility a maximum of two or three times a year. Parents, the ultimate day-care regulators, show up twice a day. And they are looking for quality as judged by them — not as judged by bureaucrats answering to different incentives.

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