

# POLICY FOCUS

## *Promoting Child Care Choice*

RECIPES FOR RATIONAL GOVERNMENT FROM THE INDEPENDENT WOMEN'S FORUM

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### WHAT YOU NEED TO KNOW

Raising children in the United States is expensive, and child-care costs are many families' biggest single expense. Full-time care at an organized daycare facility even costs more than tuition at a public university in many states.

Policymakers ought to consider reforms that will help ease the financial burden on families and make child care more affordable. However, as they do so, they should focus on supporting parents and leave the question of what kind of child care they use to them. Directly subsidizing daycare facilities or providing tax breaks solely for those families that use organized daycare facilities unfairly favors some families over others, and creates an incentive for more families to use daycare rather than family or other informal child-care arrangements.

Currently, only about one quarter of children under age five are in daycare facilities. Many families—including many with modest incomes—make big sacrifices to have a family member at home when their children are young because they think it's best. These families deserve financial relief too.

Policymakers can help by consolidating existing tax credits and government spending on children and returning that money to families through an expanded child tax credit. Relief could be targeted to help those with younger children and lower incomes. Such tax relief would help all parents better afford whatever child-care option works best for their families.

## WHY YOU SHOULD CARE

We all want children to be well cared for, and to help struggling families. We can do so by:

- **Returning Resources to Parents to Use as They See Fit:** Unsurprisingly, the federal government already provides a lot to support to our nation's children. But that support is spread across a variety of tax provisions and programs creating administrative overhead and waste. Policymakers should consolidate these initiatives and return those resources to families with children.
- **Creating a More Innovative Child-Care Sector:** Giving parents more resources and removing counterproductive regulations on child-care centers would help create a more innovative and dynamic child-care sector that would better meet families' unique needs. (For more information on how child-care regulations drive up costs, see [this policy focus](#).)
- **Ending the Bias Against Stay-at-Home Parents:** Currently much of government's support for families is targeted at those families who used paid child care. This is unfair to parents who make significant sacrifices to have a family member care for their young children. Research suggests that there are long-term benefits to family-based care, which suggests that our public policies shouldn't discourage families from making this choice.

## MORE INFORMATION

### The Costs of Raising a Child

This won't come as news to parents: Raising a child today is very expensive. The [U.S. Department of Agriculture](#) estimates that families spend more than \$250,000 on food, shelter, child care, education and other expenses to raise a child to age of 18.

The news media often focuses on the eye-popping costs of paying for child care, which can be the biggest household expense for families that use organized daycare facilities. As the nonprofit group [Childcare Aware](#) details, costs for full-time care vary by state from \$5,496 in Mississippi to \$16,549 in Massachusetts for infant care (which is the most expensive child care). In 31 states, the [average cost of full-time daycare](#) for an infant is more expensive than the tuition at the state's average public college.

These are big numbers, but also aren't a surprise. Taking care of a young child, particularly a baby, is a lot of work. Babies need frequent feedings and changings, to be held and talked to when they are awake and engaged, and comforted when they cry. This requires significant staff resources and all of that time is expensive. In fact, it shouldn't be surprising at all that child care costs more than

college since college students don't—or at least shouldn't—need such focused attention and pampering.

Certainly, government policy makes daycare, like any business, more expensive than it needs to be. In addition to normal business operating costs and obtaining adequate liability insurance, child-care centers must comply with often stringent state regulations. States create rules for the maximum children-per-caregiver ratio, how much space must be available per child, and what daycare center facilities must include, all of which can have a big impact on costs. Many of these regulations have been researched and found not to be associated with improved quality of care. That means there is an opportunity for policymakers to make child care less expensive without sacrificing quality of care by rolling back these counterproductive regulations. (For more information on how child-care regulations drive up costs, see [this policy focus](#).)

However, child care is never going to be cheap, nor should it be. And while families that use organized daycare facilities face big bills, those who do not pay for child care also make significant sacrifices, financial and otherwise. Some parents forgo one salary to keep a parent at home to care for young children. Some parents find ways to arrange their work schedules so that each partner works at a different time, so one is always available for the baby. Others enlist the help of grandparents

or other family members or friends to care for young children.

These families, like those paying for child care, are making sacrifices for their families and could use financial relief too.

### **How Daycare Subsidies Could Backfire on Families**

Some politicians and family advocates suggest that the government should focus efforts on helping families paying for child-care costs by directly subsidizing daycare facilities or providing tax relief to these families to defray their costs.

Undoubtedly, these are well-intentioned proposals, but Americans should consider how they might backfire in terms of driving up daycare prices. Child-care providers, aware of new subsidies, might increase their prices to capture the new subsidies, leaving families no better off. And, if the subsidies are available only to a subset of families, many families may end up facing *higher* costs than before.

This is the dynamic that has taken place with college tuition. Government actions to subsidize college tuition has made it easier for colleges to increase prices. In fact, the [Federal Reserve](#) estimates that Federal Direct Subsidized Loans “generated a 65 cent-on-the-dollar increase on college tuition, while Pell Grants generated a 50 cent-on-the-dollar increase on college tuition.” That means that for every taxpayer dollar that went to subsidize

college, the student received 50 cents or less in reduced costs. A similar dynamic could happen with subsidies for daycare centers, making it an inefficient way to help families.

Subsidizing daycare also changes the calculations for those families that currently use an alternative child-care arrangement. Right now, many families avoid direct daycare expenses by either keeping a parent at home or enlisting a friend or family member to care for children while the parents are at work. Yet imagine the extreme example in which government pays directly for the cost of daycare centers, making the service free for parents (though not for taxpayers!). A grandparent who had previously stepped in to help care for a baby or child may be less willing to assist when daycare has become free and the value that she or he provides to the family is reduced.

This may encourage some families to switch to using daycare rather than family care. That's a problem particularly because many—in fact most—parents believe that family-based care is best for children. When the research firm **Public Agenda** asked parents of children under age 5 about the best child-care arrangement during a child's earliest years, 70 percent thought it was best for one parent to be at home, while just 6 percent thought a quality daycare center was optimal. Government policy shouldn't discourage families from choosing the care option that they believe is best for their families.

## Returning Resources to Give Parents More and Better Options

The government already spends a lot to support families with children. **The Government Accountability Office** estimates that in 2012 the federal government administered 45 programs related to early learning and child care, which together cost taxpayers roughly \$14.2 billion per year. In addition, there are five tax provisions to support individual spending on child-care services, which reduce tax receipts by approximately \$3.1 billion annually. These resources solely benefit families using paid child-care arrangements, and primarily center-based care.

Of course, child care is just a small slice of what the federal government spends on children. The **Urban Institute** details \$348 billion in federal outlays, and \$99 billion in tax reductions that were targeted toward children in 2012. Together, those amount to nearly \$6,000 per child. There may be reasons for some of this money to be allocated by the government to directly support certain populations of children (such as those with disabilities) and for programs that provide services (rather than financial support) to children and families. However, policymakers should nonetheless consider how to consolidate and eliminate inefficient, duplicative programs, and return those resources to parents to use as they see fit.

The federal government also seeks to ease the burden on families with children with tax credits, which, if structured correctly, can be good policy. Economists such as **Robert Stein**, a former deputy assistant secretary at the U.S. Treasury, persuasively argue that parents are over-taxed compared to their investment in and contribution to society. For example, **The Urban Institute** reports that: “tax expenditures on children were just 8 percent of the approximately \$1.2 trillion in individual and corporate tax expenditures identified by the Office of Management and Budget (OMB) in 2012.” This suggests that other investments that taxpayers make—whether that is in their homes or in savings vehicles—receive better tax treatment than raising children.

Lawmakers ought to consolidate existing child-centered tax credits and spending, and use those savings to provide added refundable tax relief for parents, particularly to the parents of the youngest children. This would accomplish numerous important policy goals by alleviating disincentives for childbearing, ending the current government bias against stay-at-home parents, and simplifying the tax code. Since many of the current programs, like Head Start, are geared to assist low-income women, a new mechanism for support should be allocated on a means-based scale to help those with lower incomes most.

Parents would therefore have more money in their budgets to spend as they see

fit, whether on paid child care or on other necessities. Parents would be better positioned to afford whatever care arrangement they believe is preferable, whether that is paid child care or keeping a parent at home.

### **Don't Force Businesses to Provide Daycare**

Some propose requiring large businesses to offer onsite child care as a way to help working parents. Yet this proposed solution overlooks the considerable costs associated with this mandate, which would ultimately impact workers as well as employers. Many employers are simply not equipped to provide onsite child care. The costs associated with offering this service would have to come from somewhere, and would ultimately result in lower take-home pay for workers, fewer jobs, and/or higher prices for consumers.

Moreover, not all workers, even those with children, need or want onsite child care. Many have found satisfactory arrangements on their own. This requirement would again skew workers' decisions about what child care to use, leading them away from at-home care or a different child-care provider, even if they believe that those other options are preferable for their families.

There are better ways to help parents than a costly employer mandate.

## WHAT YOU CAN DO

- **Get Informed:** Learn more about how we can better help families with children. Visit:
  - **Independent Women's Forum**
  - **Working for Women Report**
  - **National Affairs, Rhoads and Lukas**
- **Talk to Your Friends:** Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.
- **Become a Leader in the Community:** Get a group together each month to talk about a political/policy issue (it will be fun!).

Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

- **Remain Engaged Politically:** Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

## ABOUT THE INDEPENDENT WOMEN'S FORUM

The Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

We rely on the support of people like you! Please visit us on our website [www.iwf.org](http://www.iwf.org) to get more information and consider making a donation to IWF.

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