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Child Care Subsidies: Mostly for the Middle Class; An example of "trickle-down liberalism"?

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As Congress debates the various child care proposals before it, the conventional wisdom is that federal support for child care hit a dead end when President Nixon vetoed the Child Development Act of 1971. Writing in *The Post*, here's how Ellen Goodman put it: "From then on . . . the government was committed to neglect. Child care had all but disappeared from the federal agenda."

Not so. Over the past 15 years, federal child care assistance has more than doubled. By our estimates, between 1972 and 1987, federal child care expenditures rose from \$ 1 billion to \$ 6.2 billion -- an after-inflation increase of 127 percent. By 1989, expenditures will approach \$ 8 billion, another 24 percent rise in just two years.

Poor and low-income families, however, have not been the main beneficiaries of this increased federal spending. During this period, combined spending on child care programs for the poor, such as Head Start, the Child Care Food Program, Social Services Block Grants and child care associated with welfare and job-training programs rose from about \$ 800 million to about \$ 2.7 billion, which is only a 27 percent increase after inflation.

The other \$ 3.5 billion in federal child care costs is attributable to the two income tax credits, the Child and Dependent Care Credit and the Employer-Provided Child and Dependent Care Services Credit. The Child Care Credit dates back to 1954, when it was a limited deduction. After successive liberalizations of the deduction in the 1960s and early 1970s, Congress made it a credit in 1976. But the real increases in its cost have come only in the last 15 years: from \$ 224 million to \$ 3.5 billion, an after-inflation jump of a whopping 479 percent. It is expected to rise another \$ 1.1 billion by 1989, a 31 percent increase in just two years.

The Employer-Provided Child Care Services Credit is lesser known. Enacted in 1981, it creates a tax shelter for up to \$ 5,000 in child care expenses if the employer -- rather than the parent -- pays for the child care. According to the Treasury, this credit is growing even faster -- from \$ 30 million in 1987 to a projected \$ 150 million in 1989, a fivefold increase in only two years.

Perhaps the child care issue has been off the "federal agenda" since 1972, but, behind the scenes, federal subsidies have more than doubled. This increase, however, came almost entirely in the area of tax credits and has largely benefited middle-class families -- not low-income ones. Tax credits do not benefit poor or low-income families, who hardly pay taxes in the first place. In 1983, less than 1 percent of tax-credit benefits went to families with adjusted gross incomes below \$ 10,000, and only 16 percent to families with adjusted gross incomes below \$ 15,000.

Thus, the last decade and a half has witnessed a shift in the targeting of federal child care assistance. In 1972, nearly 80 percent of federal expenditures benefited low-income families; now about half do. The major child care bills before Congress -- Sen. Christopher Dodd's Act for Better Child Care Services (ABC) and Sen. Orrin Hatch's Child Care Services Improvement Act -- would go a long way to ratify this trend toward greater middle-class subsidies.

The ABC bill, for example, would provide financial support to families earning up to 115 percent of the median income. Nationally, that would be about \$ 34,000, but ABC sets eligibility by state median incomes, so that many states would have considerably higher caps: \$ 39,530 in Illinois, \$ 39,920 in the District, \$ 41,656 in California and \$ 44,941 in Massachusetts, for example. Moreover, the bill does not guarantee low-income families a minimum percentage of appropriated funds; it merely requires that state plans "give priority for services to children with the lowest family incomes." The Hatch bill has no income cap.

Perhaps child care should be universal -- available to all families, regardless of their income -- like public schools. But that is an eventual question, as is the proper role of the federal government in establishing such a system. For now, in this era of Gramm-Rudman-Hollings, when programs for the disadvantaged are under the gun, it is simply wrong to funnel scarce federal dollars -- in increasing amounts and proportions -- to middle-class families. Priority should be given to families in greatest need.

What's going on? The pressure for a child care bill is coming from a coalition of child care providers and associated professional groups, unions, women's groups and various advocates for the poor and disadvantaged. It is easy to see why the first of these groups wants the bill. It would expand programs and jobs -- and, ultimately, raise salaries. Women's groups are seeking an acknowledgment that women play an important role in the economy and that meeting their child care costs should be a public responsibility.

But why should advocates for the poor help create a new middle-class entitlement, instead of an expansion of Head Start and other child care programs specifically targeted to low-income families? The theory seems to be that, when you give the middle class a big enough government subsidy, voters won't mind if a little bit ends up helping the poor. You might call this "trickle-down liberalism."

Perhaps these advocates are right. Perhaps the only way to provide help to the poor is to embed their aid in a middle-class entitlement. But that's hardly an efficient approach to a serious and costly issue of public policy.

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