

As Congress debates various child care proposals, the conventional wisdom is that the federal role in child care ceased when President Nixon vetoed the Child Development Act of 1971.¹ Not so. Over the last 15 years, federal child care assistance has more than doubled. By our estimates, the costs of federal child care assistance—through income tax deductions and credits, child care and early education programs, and welfare and job training programs—rose from \$1 billion in fiscal 1972 to about \$6.2 billion in fiscal 1987. Accounting for inflation, that's a real increase of 127%. By 1989, expenditures will approach \$8 billion, another 24% rise in just two years. (See Figure 1.)

Poor and low-income families, however, have not benefited from this increased spending. Because the most significant child care subsidies are provided through the tax code and not through spending programs, these increases have largely benefited middle- and upper-income families, as Figure 1 shows. Lower-income families do not benefit because they hardly pay taxes in the first place, especially after the Tax Reform Act of 1986.

The next two sections of this article describe the federal government's surprisingly broad range of subsidies and programs that support child care, directly or indirectly. Perhaps these programs are not as substantial as child care advocates would like them to be, but they are substantial nevertheless. The problem is these funds go increasingly to the least needy among us. This paper concludes with a discussion of options for change.

Tax Policy

At nearly \$3.5 billion in fiscal 1987,² the largest of these tax-based child care subsidies is the Child and Dependent Care Tax Credit. It may be claimed by parents for eligible employment-related child and dependent care expenses.³ In 1985, approximately 8.4 million tax returns claimed \$3.1 billion in child care credits, an average credit of \$372. The House Ways and Means Committee has estimated that in 1988, a total of \$4 billion in child care credits will be claimed on approximately 9.6 million returns, an average credit of \$419.⁴

The Child Care Credit dates back to 1954 when it was created as a deduction. By 1972, it accounted for \$224 million. In 1976, it was made into a credit, and the real increases in its support began. By 1987, it claimed fully \$3.5 billion, an after inflation jump of a whopping 479 percent over 15 years. The 1989 cost is projected to be another \$1.1 billion dollars higher, a 31 percent rise in just two years. CBO estimates show continuous increases into the early 1990s, with a cost approaching \$5 billion by 1993.⁵

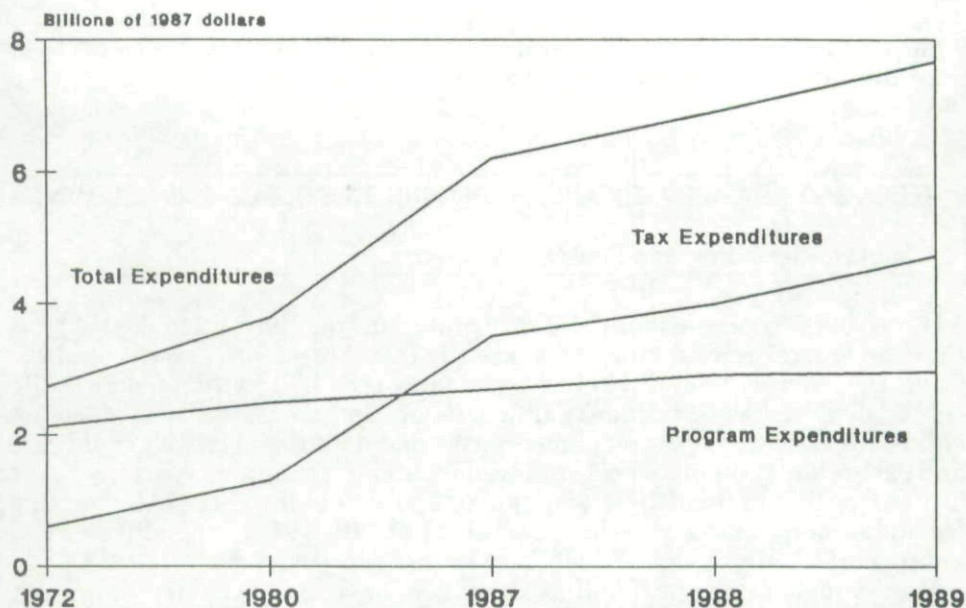


Figure 1. The growth of federal child care assistance (1972–89).

A shocking proportion of these credits go to middle- and upper-income families: Nearly half go to families with incomes above the median. In 1985, less than 1% went to families with adjusted gross incomes below \$10,000, and only 13% to families with adjusted gross incomes below \$15,000.⁶ So few lower-income families can benefit from the credit that less than half of all working mothers claim it.⁷

The Employer-provided Child or Dependent Care Services Tax Credit is lesser known—but not for long. 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, or provides, the child care.⁸ It is intended to provide an incentive for employers to provide child care benefits to their employees.

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.⁹ Moreover, CBO projects that the costs of this credit will also continue to rise into the next decade, approaching \$1 billion by 1993.¹⁰

Spending Programs for Poor and Low-income Families

Federal child care assistance to poor and low-income families has also increased during the 1970s and 1980s—though not nearly as rapidly. Between 1972 and 1987, spending on these programs rose from about \$800 million to about \$2.7 billion, which is only a 29% increase after inflation.

Child Care/Early Education. Seven federal programs are devoted exclusively to child care, early education, or related services, at an annual cost of about \$1.9 billion. The largest of these programs is Head Start, which spends \$1.1 billion per year on local preschool programs for low-income children.¹¹

The Child Care Food Program (\$551 million) and the Special Milk Program (\$4 million)¹² provide milk, food, and money to day care providers for an estimated 1.1 million low-income children daily.¹³

The Department of Education also supports preschool programs for handicapped children by providing states with about \$178 million in grants under the Special Education and Rehabilitative Services program.¹⁴

Another \$11 million provides less direct support for child care programs. Under the Dependent Care Planning and Development Program, the Department of Health and Human Services (HHS) makes grants totaling up to \$5 million per year to the states for child care services before and after school, and for the development of local child care information and referral services.¹⁵

Through the Child Development Associate Scholarship Program, HHS makes up to \$1 million in grants¹⁶ to states for scholarships to needy candidates for the child development associate credential.¹⁷

Welfare and Job Training—Child Care Expenses. The various federal welfare and job training programs are another major source of direct and indirect funding for child care services. The two major federal welfare programs—Aid to Families with Dependent Children (AFDC) and Food Stamps—subsidize child care indirectly by allowing recipients to deduct child care expenses from their income when determining eligibility. These policies, which are designed to encourage work and self-sufficiency, cost the federal government an estimated \$94 million in fiscal 1987.¹⁸

Similar child care deductions are also allowed under two federal housing assistance programs: (1) the Public and Indian Housing Program, and (2) the Section 8 Housing Program, which provides rent vouchers to make private housing affordable for low-income families. Both programs deduct child care expenses from family income when determining participants' rent copayment. In fiscal 1988, an estimated 210,000 families with 480,000 children are expected to deduct child care expenses, at a cost of \$18 million.¹⁹

The Work Incentive Program (WIN) seeks to reduce welfare dependency by providing money to states to help AFDC recipients find and retain jobs. States are required to provide child care services to WIN participants who need them. In fiscal 1987, these services cost the federal government an estimated \$12.6 million.²⁰

As part of its overall strategy for training economically disadvantaged individuals and dislocated workers, the federal government provides money to states for child care services and subsidies within broad-based employment programs. Local programs funded under the Job Training Partnership Act (JPTA) spend over \$9 million for child care supportive services and subsidies.²¹

Student Financial Aid—Child Care Expenses. A number of federal financial aid programs for students base the size of individual grants upon the cost of school attendance, which, beginning in 1988, may include reasonable child care expenses.²² Data on the costs of this new child care provision are not available for most of these programs, but estimates provided by the Department of Labor indicate that child care will add an estimated \$65 million to total expenditures for the Pell Grants program, which provides grants for low-income students.²³

Social Services/Community Development Funding. Besides the programs described above, some portion of an additional \$6 billion²⁴ in social services and child welfare grants and community development grants is available for child care services. Unfortunately, the structure of these programs—block grants to the states—makes it difficult to determine with any degree of certainty just how much money is involved.

Consider the largest of these programs—the Social Services Block Grants (Title XX). In fiscal 1987, over \$2.7 billion²⁵ was given to the states to provide a full range of social services—at the states' discretion. There are no requirements as to how the states should apportion the money. To enhance states' flexibility further, there are also no detailed record-keeping requirements on how these funds are used or whom they benefit. Thus, few data exist on how much Title XX money is spent by the states on child care.²⁶

The Department of Labor reports that \$660 million (24%) of Title XX spending supports child care.²⁷ From a recent survey of state child care spending, however, the Department of Health and Human Services estimated that combined state and federal Title XX spending on child care totals \$1.1 billion per year.²⁸ Thus, assuming a standard two-thirds federal share, total federal spending could be as high as \$726 million per year, or about 27% of total Title XX spending.

Current Policy Options

Support for child care has received little attention since 1972, but, as just noted, behind the scenes, federal subsidies have more than doubled. Simultaneously, a sharp reversal in the beneficiaries of federal child care assistance has occurred. In 1972, nearly 80% of federal expenditures benefited low-income families; now, only about half do. The nature, extent, and targeting of assistance have now moved more to the forefront of public debate.

Unfortunately, the major bills before the 100th Congress—Senator Dodd's "Act for Better Child Care Services" ("ABC")²⁹ and Senator Hatch's "Child Care Services Improvement Act"³⁰—would have gone a long way toward ratifying the trend toward greater middle-class subsidies. The ABC bill, for example, would have provided support to families earning up to 115% of the median income.³¹ Nationally, that would be about \$34,000, but ABC set eligibility by state median incomes, so that many states would have considerably higher caps: \$39,530 in Illinois, \$39,920 in the District of Columbia, \$41,656 in California, and \$44,941 in Massachusetts, for example.³² Moreover, the bill did not guarantee low-income families a minimum percentage of appropriated funds; it merely required that state plans "give priority for services to children with the lowest family incomes."³³ The Hatch bill had no income cap.

Perhaps child care should be universal—available to *all* families, regardless of their income—like public schools. But that is a long run question, as is the proper role of the federal government in establishing such a system, which would call for an enormous increase in public spending. For today's era of Gramm–Rudman–Hollings limits, it is simply wrong to funnel scarce federal dollars—in increasing amounts and proportions—to middle-class families who need them less. Priority should be given to families in greatest need.

Better targeting of federal child care assistance, however, calls for some very tough political choices. Eliminating the Child Care Credit for wealthy families and using the savings to help poor families is one option. But politicians seem loathe to take away one of the last tax breaks left by the reformers in 1986. In June 1988, for example, when the Senate Finance Committee sought to raise additional revenues to pay for welfare reform by phasing out the Credit at the highest income levels, Senator Bill Bradley

successfully blocked the effort, calling it "insulting to working women." Few male politicians want to face that charge.

Besides, there is no constituency for taking away such benefits—even if the savings would help the poor. Advocates for the poor—along with their liberal allies in Congress—have instead been pushing for expanding middle-class subsidies rather than Head Start and other child care programs specifically targeted to low-income families. They too want a program that includes middle-class mothers, a politically powerful constituency, in order to win their support for aid to low-income families. The theory seems to be that, if the middle class gets 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 bury it under a middle-class entitlement. If the politics of Social Security are a guide, the argument has some validity. But this would be an incredibly inefficient social strategy, as shown by nearly two decades of recent experience.

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NOTES

1. In March 1988, for example, widely syndicated columnist Ellen Goodman wrote, "From then on . . . the government was committed to neglect. Child care had all but disappeared from the federal agenda." Goodman, E., "The Feds and the Kids . . .," *Washington Post* (March 22, 1988): A25.
2. No direct funding is provided for this program. This figure is the estimated tax revenue loss associated with the credit. Executive Office of the President, Office of Management and Budget, *Special Analyses. Budget of the United States Government. Fiscal Year 1989* (1988): G-43.
3. Expenses up to a maximum of \$2,400 for one dependent and \$4,800 for two or more dependents are eligible. For taxpayers with incomes of \$10,000 or less, the credit is 30% of qualified expenditures; the credit is then reduced by one percentage point for each \$2,000 of income between \$10,000 and \$28,000. For taxpayers with incomes above \$28,000, the credit is 20% of qualified expenditures. U.S. House of Representatives, Committee on Ways and Means, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means: 1988 Edition* (March 24, 1988): 614.
4. *Ibid.*
5. *The Effects of Tax Reform on Tax Expenditures*, p. 48, table A-1.
6. Derived from Statistics of Income Division, Internal Revenue Service, *Individual Income Statistics* (April 1988): 81, Table 3.3.
7. Robins, Philip K., "Federal Support for Child Care: Current Policies and A New Proposed System," *Focus* (Summer 1988): 6.
8. Stephan, S. and Schillmoeller, S., "Child Day Care: Selected Federal Programs" (April 7, 1987), Library of Congress, Congressional Research Service, p. CRS-14.
9. *Special Analyses*, above note 2, p. G-43.
10. Congressional Budget Office, *The Effects of Tax Reform on Tax Expenditures* (March 1988), p. 48, Table A-1.
11. Executive Office of the President, Office of Management and Budget, *Appendix. Budget of the United States government. Fiscal Year 1989* (1988): I-K36.

12. *Child Care. A Workforce Issue*, p. 22.
13. Figure for fiscal 1986. "Child Day Care: Selected Federal Programs," pp. 20–21.
14. *Appendix*, above note 12, at p. I–18.
15. *Ibid.*, p. I–K36.
16. *Ibid.*, p. I–K37.
17. "Child Day Care: Selected Federal Programs," p. CRS-25.
18. Besharov, D., and Tramontozzi, P. "The Costs of Federal Child Care Assistance" (American Enterprise Institute, April 20, 1988), n. 24.
19. *Child Care. A Workforce Issue*, p. 42.
20. "The Costs of Federal Child Care Assistance," n. 26.
21. *Child Care. A Workforce Issue*, pp. 44–47.
22. See *Ibid.*, pp. 27, 29.
23. *Ibid.*, p. 27.
24. For a complete list of programs, see "The Costs of Federal Child Care Assistance," n. 38.
25. *Appendix*, above note 12, p. I–K36.
26. Ultimately, the extent to which states pay for child care through Title XX—or any other federal block grant—is not terribly relevant. A state has a certain amount of money with which to pay for social services, with funds coming from federal, state, and local sources. How a state chooses to allocate this money—and from what sources it funds particular activities—do not change the *total* amount of funds available for social services. Like all money, Title XX funds are fungible, or interchangeable; if a state chooses to spend all of its federal money on child care, that doesn't necessarily mean that it's spending a lot of money on child care relative to other states. It does mean that the state would have to "charge off" all other social services to state and local sources—essentially an accounting decision.
27. *Child Care. A Workforce Issue*, p. 31.
28. Office of the Assistant Secretary for Planning and Evaluation, Department of Health and Human Services.
29. S.1885, 100th Congress., 1st Sess. (1987).
30. S.2084/H.R.4002, 100th Cong., 2nd Sess. (1988).
31. S.1885, sec. 18.
32. Congressional Research Service, cited in Henderson, K., "Federal Day-care Bills: 'You have to start somewhere,'" *Christian Science Monitor* (January 21, 1988): 23.
33. S.1885, sec. 7 (11)(B)(i).

PRODUCTS LIABILITY: A MIDDLE GROUP FOR REFORM

Alfred Levinson

In recent years, insurance premiums for products liability have increased dramatically. One recent survey of 81 companies found that 95% reported an increase in their premium, with a median increase of 116% when the policy