

April 6, 1988

## THE AMERICAN FAMILY AND DAY-CARE

### INTRODUCTION

Congress has found yet another "crisis" to solve. This time Congress contends that there is a critical shortage of day-care in the United States. To deal with this, Senator Christopher J. Dodd, a Connecticut Democrat, and Congressman Dale Kildee, a Michigan Democrat, have fashioned what they call the "Act for Better Child Care" or ABC bill (S. 1886 and H.R. 3660).

There is no clear evidence, however, that the premise of these bills is correct. To the contrary, there is no persistent shortage of day-care in the U.S. Day-care is one of the most rapidly growing industries in the economy. Over the last 25 years, the number of spaces for children in day-care centers has expanded at a rate of nearly 10 percent per annum. Occasional shortages are due largely to excessive regulation, not a lack of willing providers. By demanding stricter federal regulation, the Dodd-Kildee bill would reduce rather than expand the supply of day-care. The ABC bill would help bureaucrats and social service providers far more than families. The bill would provide day-care assistance to only one young child in ten. A majority of children under age five do not have mothers who are employed and therefore do not need day-care. And because the Dodd-Kildee proposals cover only "licensed" day-care providers, some 90 percent of providers would be ineligible for funding; three-quarters of the young children receiving day-care would be excluded from assistance.

**Robbing the Poor.** The ABC bill promotes a policy of "Robin Hood in reverse," taxing hard-pressed traditional single-earner families to provide subsidized day-care for affluent professional couples. Over 80 percent of young children using day-care come from affluent two-parent/two-earner families. The median income for these families is nearly 50 percent higher than for two-parent/single-earner families. These single-earner families would not benefit from ABC, but would pay higher taxes to fund the program.

Families with young children of course, do face a serious problem. This problem is not a lack of professional day-care but an erosion of family income due to a tax code that is

increasingly biased against dependent children. A genuine pro-children policy would focus on providing tax relief to families, rather than taxing them to provide subsidized day-care services to generally more affluent parents.

The "toddler tax credit" legislation soon to be introduced by Representative Richard Schulze, the Pennsylvania Republican, would be a step toward this goal. This legislation would provide a \$750 tax cut to families for each child under age six and provide cash payments to low income working families who pay little taxes through an expansion of the earned income tax credit. Families would be free to use the added income for any purpose, including day-care. The ABC bill discriminates against families in which the mother, often at considerable financial sacrifice, remains at home to care for her own young children. The Schulze bill, on the other hand, provides equal help to all working families with young children.

## DAY-CARE IN AMERICA

Proponents of the "day-care crisis" thesis maintain that traditional child rearing is a thing of the past and that nearly all mothers with young children are in the work force or soon will be. Thus, the argument goes, a massive increase in day-care services is needed and only the federal government is capable of financing it.

The facts speak otherwise. According to *Who's Minding the Kids?*, a 1987 Census Bureau report, only 45 percent of children under five have mothers in the work force.<sup>1</sup> Fewer than one child in three has a mother employed full-time, and fewer than one in five has a mother employed full-time throughout the year.<sup>2</sup> Even when the mother is employed, many families prefer to have the child cared for by grandparents, or other adult family members, rather than professional day-care providers. Nearly half of the young children whose mothers are employed are cared for by adult family members or relatives.

**Refuting Conventional Wisdom.** Thus far from being widespread, paid professional day-care of the kind envisioned in the Dodd-Kildee bill is used by only a small minority of American families. Overall, only one young child in three in the U.S. receives any form of paid day-care. No more than one in ten attends professional day-care centers of the sort that would be subsidized in the Dodd-Kildee bill.<sup>3</sup> (See appendix for further information on child care and children.)

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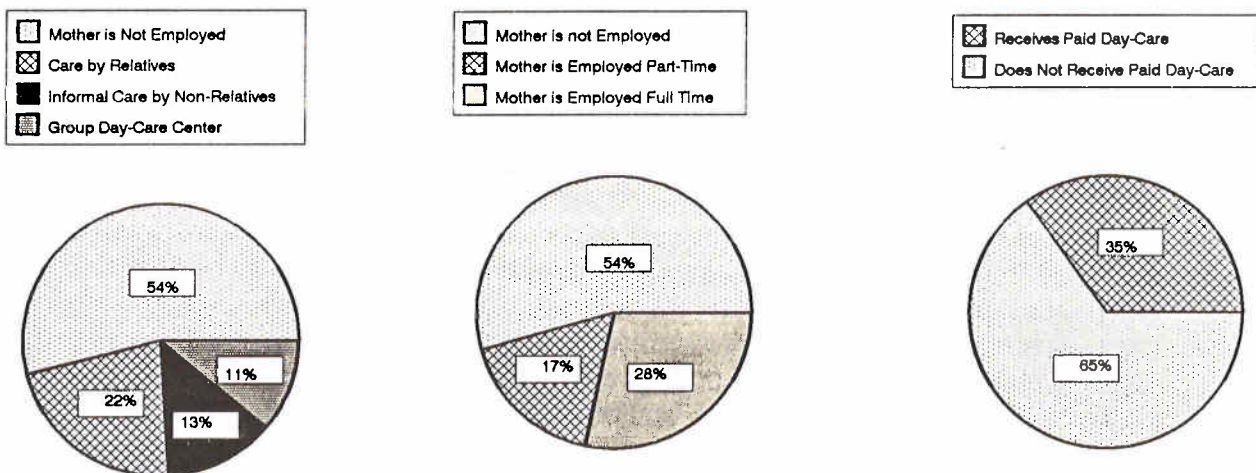
1 Bureau of the Census, U.S. Department of Commerce, series p-70, No. 9, May 1987, *Who's Minding the Kids?* The data in this report are taken from a special census survey of childcare from December 1984 to March 1985.

2 Estimated from Douglas J. Besharov and Michelle M. Dally, "One Policy for Working Moms Won't Fit All," *The Wall Street Journal*, October 29, 1986. Besharov's figures show that no more than 70 percent of full-time employed mothers with young children work full-time year round.

3 Bureau of the Census, *op. cit.*

Conventional wisdom presumes that those using day-care generally are hard-pressed, low-income families. Again the facts speak otherwise. Some 83 percent of children under five in day-care are from two-parent/two-earner families.<sup>4</sup> The median income for such families in the U.S. is \$38,346. The median income of a traditional two-parent family with one earner, on the other hand, is \$25,803.<sup>5</sup> Not surprisingly, most of the benefits of the existing dependent care tax credit go to families with incomes over \$30,000 per year.<sup>6</sup> In addition, when lower income families use day-care, normally they do not use professional group care facilities of the kind that would be subsidized in the ABC bill. They are more likely to use care by a relative or neighbor. Mothers in professional jobs are about three times more likely to put their children in professional group care than are mothers in blue collar or service worker jobs.<sup>7</sup>

### PATTERNS OF CHILDCARE FOR CHILDREN UNDER FIVE



Heritage InfoChart

Source: See Appendix.

### The Alleged Shortage of Day-Care

Another common myth about day-care is that providers are in chronically short supply. Allegedly there is a "market-failure" that prevents day-care from expanding to meet increases in demand. The fact is there is no evidence of economic bottlenecks in day-care supply. On the contrary, day-care is one of the fastest growing sectors in the economy.

4 *Ibid.*

5 Douglas J. Besharov, "The ABC's of Child-care Politics," *The Wall Street Journal*, March 9, 1988.

6 Committee on Ways and Means, U.S. House of Representatives, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means* (Washington, D.C.: Government Printing Office, 1984), p. 604.

7 Bureau of the Census, *op. cit.*, p. 8.



Between 1960 and 1986, the number of children in formal group care centers skyrocketed by 1,500 percent from 141,000 to 2.1 million. The number of centers grew from 4,400 to 39,929. There are at least another 1.65 million unlicensed neighborhood day-care providers.<sup>8</sup>

Confirming that there is no material shortage of day-care is the price of that service. Were there shortages and constraints in the supply of day-care, prices would increase sharply. But in general the cost of day-care, measured in constant dollars, has stayed relatively unchanged for the past decade. While the cost of hiring a full-time sitter to care for a child in one's home has increased, the costs of "family day-care" providers and group care centers have remained constant or increased only slightly in real terms over the last ten years.<sup>9</sup>

### Day-Care and Regulation

In the face of the hard evidence, why is there a perceived shortage of day care? For one thing, many day-care providers are subsidized or non-profit and charge less than the average market rate for their services. A great number of parents predictably seek the lower-priced services. The result: waiting lists.

For another thing, government regulation often prevents providers from serving parents. All states, for instance, require large-scale group day-care centers to be licensed. This may seem reasonable. But more than half of the states also regulate small neighborhood or what is known as "family day-care" providers caring for five children or fewer. In some states, if an adult cares for even one unrelated child outside the child's home the adult is judged to be operating a "day-care facility" and must obtain a license.<sup>10</sup>

**Restricting Supply.** In theory, these regulations are meant to protect children. In practice, they often are the product of an arbitrary bureaucracy and have little or nothing to do with the quality or safety of day-care. The major effect of zoning codes, building, and health regulations is, in many cases, to restrict supply. Most Americans would presume that a house or an apartment judged safe enough for a family to live in ought to be deemed suitable for a small day-care facility caring for five children or fewer.<sup>11</sup> But local regulators disagree. Often, building codes designed for restaurants and orphanages are applied to small neighborhood family day-care providers, forcing expensive structural changes that make it uneconomic to provide day-care services.

In Texas, for instance, neighborhood providers can be required to install three stainless-steel sinks and a vent over the stove. In California, family day-care homes have

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8 Susan Rose-Ackerman, "Unintended Consequences: Regulating the Quality of Subsidized Day-care," *Journal of Policy Analysis and Management*, Vol. 3, No. 1 (1983), p. 15. Sandra L. Hofferth and Deborah A. Phillips, "Child Care in the United States, 1970 to 1995," *Journal of Family and Marriage*, August 1987, p. 565.

9 Sandra L. Hofferth, statement before the select committee on Children, Youth and Families, July 1987, p. 9.

10 Karen Lehrman and Jana Pace, "Day-care Regulation: Serving Children or Bureaucrats?" *Cato Policy Analysis* No. 59, September 25, 1985.

11 It is important to note that for small day-care providers with gross annual revenues between \$5,000 and \$10,000, one or two "minor" regulatory demands can be financially ruinous.

been required to install sprinkler systems and fire-retardant walls; one woman, seeking to expand enrollment in her six-child day-care home, was told that she would have to install separate bathrooms for boys and girls. And the bathrooms would have to be made large enough to accommodate wheelchairs.<sup>12</sup>

In state after state, day-care providers have been cited for absurd or bizarre regulatory abuses. Among them:

- ◆ During the licensing process, one day-care provider was asked to assess the center's "vulnerability to terrorist attacks."
- ◆ A center was required to develop "lesson plans" for toddlers, detailing all activities for the entire day in ten-minute intervals.
- ◆ Following an inspection, one provider received a state reprimand form stipulating that "all dolls should be clothed during business hours."
- ◆ In an annual licensing examination, a fire inspector required one day-care provider to rehang a door to open outward. The next year, another inspector required that the door open inward. In the third year, yet another inspector demanded that the door be rehung to open outward. Complying with each demand, of course, required expensive carpentry.
- ◆ A building inspector required a day-care center to erect a six-foot high, 900-foot-long fence around its property to protect the children. Later that year, another inspector demanded that the fence be lowered to four feet to make the environment more "home-like."<sup>13</sup>

**Preferring Neighborhood Women.** In the face of such costly and arbitrary red tape, most family day-care providers take the simplest course: they operate without a license in the so-called underground market. The result: as many as 95 percent of the nation's 1.75 million neighborhood providers are unlicensed and unregulated.<sup>14</sup> Moreover, unlicensed day-care provided by women well known within their neighborhoods often is preferred by parents because it is less impersonal, less expensive, and more convenient.

Advocates of institutional care for years have argued that unlicensed neighborhood providers are unsafe and need stricter government regulation. Yet there is no systematic evidence that day-care by unlicensed providers is in general less safe and less healthy than care in large regulated day-care centers. Indeed, the evidence suggests the opposite. Nationally publicized cases of alleged sexual abuse in day-care, such as those involving the West Point Daycare Center and the McMartin School in California, have occurred in large

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<sup>12</sup> Lehrman and Pace, *op. cit.*

<sup>13</sup> From "Red Tape Blues," *Childcare Information Exchange*, September 1987.

<sup>14</sup> Lehrman and Pace, *op. cit.*

fully regulated day-care centers. The National Child Care study shows that smaller "family day-care" providers are more attentive to children's emotional needs than are larger group centers.

The most significant threat to the health of young children in day-care is the spread of contagious diseases. Smaller, generally unlicensed, neighborhood facilities pose less threat than do large, regulated facilities. Dr. Stephen Hadler of the Centers for Disease Control explains that larger centers place more children in contact with each other, thereby increasing the chances of contracting serious infectious diseases. Says Hadler: "The larger the center or the longer the hours, the greater the chance [of infectious disease occurring]."<sup>15</sup>

**Undermining Children's Health.** Research on day-care and disease suggests that children under age two should be placed in facilities caring for six or fewer children. Policies as those proposed in the ABC bill, which would tighten the net of day-care regulations, driving many small scale providers out of business, and which would subsidize primarily large professional day-care centers, would undermine the health of American children.

State governments, of course, have responsibilities regarding day-care. State legislators for example, should work to ensure that persons who pose health risks to children and persons with criminal backgrounds are barred from day-care. And state lawmakers should prune the current thicket of unnecessary regulations imposed on day-care providers. However, adding a new layer of federal day-care regulations to existing state and local rules, as proposed by the ABC bill, is unnecessary and counterproductive.

## PROVISIONS OF THE ABC BILL

The ABC bill runs counter to day-care experience and evidence. The objectives of the proposal are to reduce the cost of day-care, to raise the pay of day-care workers, to improve quality, and to expand supply. In reality, the bill would reduce day-care supply and quality while raising its price, and provide subsidies to those who need them least.

The bill authorizes \$2.5 billion in new federal day-care spending. Even its proponents admit this is merely a tip of a future iceberg of government day-care spending. Dr. Edward F. Zigler, of the Yale University Bush Center in Child Development and Social Policy, one of the nation's most eminent authorities on pre-school programs, estimates that a comprehensive program of quality professional child care would cost between \$75 billion and \$100 billion a year.<sup>16</sup>

**Swallowing \$2.5 Billion.** Rather than giving the \$2.5 billion directly to needy families, enabling them to purchase day-care, the ABC bill proposes a "trickle-down" strategy,

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<sup>15</sup> Thomas E. Ricks, "Researchers Say Day-care Centers are Implicated in Spread of Disease," *The Wall Street Journal*, September 5, 1984.

<sup>16</sup> Edward F. Zigler, "A Solution to the Nation's Child Care Crisis: The School of the Twenty-First Century." Speech presented at the tenth anniversary of the Bush Center in Child Development and Social Policy, September 18, 1987.



filtering the funds through multiple layers of expensive federal and state bureaucracy in order ultimately to subsidize government-selected day-care centers at the local level. Even when the funds actually reach local day-care centers, there is nothing to prevent them from being swallowed up by increased salaries and supervisory costs.

At the federal level, the bill would create a "National Advisory Committee on Child Care Standards" and an "Office of the Administrator of Child Care" in the Department of Health and Human Services. A new bureaucracy would allocate monies among states, monitor and approve state "comprehensive day-care plans," and enforce extensive new federal regulations. At the state level, an array of governmental and quasi-governmental organizations would be created and sustained by taxpayer funds. These would include 100 permanent day-care commissions mandated in the legislation, new day-care planning offices, day-care referral agencies, day-care inspectors and regulators, and a new national network of training centers for day-care providers.

To be eligible for funding, each state would have to comply with new federal regulations and provide 20 percent matching funds. States would not be required to provide federal funds to all day-care providers, only to selected institutions. Which organizations receive such aid surely will be determined in great part by local bureaucratic politics.

### **A New Federal Regulatory Empire**

The bill would set "minimum" federal standards and regulations in day-care. Each state accepting ABC funds would be required to enforce these federal regulations. The state would be allowed to retain its own regulations only to the extent that they were more stringent than the corresponding federal standards. Each state, moreover, would be required to hold all its day-care providers to federal standards, not simply those receiving federal funds. Thus the bill would attempt to bring all 1.65 million informal, unlicensed neighborhood providers, as well as the nearly 40,000 group care centers, under federal control.

**Boosting Costs Per Child.** All day-care personnel, including neighborhood providers, would be forced to receive at least two days "training" each year in government-authorized training centers. All states would have to set maximum child/staff ratios for group care centers equal to the current nationwide median child/staff standards. Thus in half of the states, day-care centers would be required to raise existing staff levels, immediately sharply boosting cost per child enrolled.

"Minimum" federal day-care standards also would be developed by the new National Advisory Committee on Child Care Standards. Two-thirds of the members of this body would be selected by Congress and one-third by the President. These minimum standards would establish additional child/staff ratio requirements, more stringent educational and

training qualifications for all day-care workers nationwide, and additional health and building safety regulations. The Committee also could establish federal curriculum requirements for day-care, although the bill does not require that it do so.<sup>17</sup>

## THE LIKELY EFFECTS OF ABC

An obvious solution to alleged day-care shortages would be to give families money to purchase more or better quality day-care for their children. Day-care providers then could respond to increased demand by expanding and improving their services. Parents would be free to choose the day-care providers who best met family needs.

Instead of this, the Dodd-Kildee bill would fund bureaucrats and day-care professionals rather than families. Yet bitter experience demonstrates that bureaucratic subsidization of services is the least efficient means of meeting public needs. Example: Public housing units cost 40 percent more to construct than comparable private sector units and often begin to fall apart within a few months after completion.

While the ABC bill contains a minor provision allowing states to provide day-care vouchers, which would stimulate consumer choice, no state is required to provide vouchers. Vouchers are mentioned in only two paragraphs of the 63-page bill. In practice, little if any of the ABC funding would reach parents in the form of vouchers.

Why does the ABC bill fund institutions rather than parents? The answer makes sense only in Washington's hothouse world of making policy. Parents have no clout on Capitol Hill; by contrast, those who would be funded by the Dodd-Kildee legislation — bureaucrats, planners, consultants, regulators, trainers, and state service providers — are represented on Capitol Hill by a well-organized army of lobbyists.

### Cost, Quality, and Supply

Total nationwide spending on day-care, both public and private, is about \$15 billion per year. The ABC would increase this spending by about 20 percent. But because of its increased regulation and "trickle-down" funding, the ABC bill is likely to raise costs and restrict the supply of day-care rather than increase it, at least among licensed providers.

Nor is it likely that the regulations will raise the quality of care. Higher staff/child ratios would raise costs dramatically. But the 1979 National Day-care Study commissioned by the Department of Health, Education and Welfare found very little correlation between staff/child ratios and quality.<sup>18</sup> Operators of day-care centers in California point out that state credentialing rules, requiring day-care workers to have completed college course work

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<sup>17</sup> The ABC bill is structured to ratchet in future regulatory expansion. In one bizarre provision, the bill allows states to increase day-care regulations, but once a new state regulation was in effect, the state government would be barred permanently from making it less stringent, even if the regulation exceeded federal standards and was found to be counterproductive. Similarly, once the initial federal regulations were promulgated, the Department of Health and Human Services would be barred permanently from making any regulation less severe — but the Department would be permitted, year after year, to make the standards stricter.

<sup>18</sup> Lehrman and Pace, *op. cit.*, p. 4.



in child development, significantly raise salary costs while barring many competent and caring persons from employment — nearly all mothers and grandmothers are deemed unfit to work in day-care centers.

### **Benefits Few Children**

The 54 percent of children under five whose mothers do not work would receive no benefits from the Dodd-Kildee proposal. Even among those children who receive day-care, only a small number would receive assistance through ABC. Funds that trickled down through the bureaucratic labyrinth would be channeled primarily toward professional group care centers. Children who receive care from relatives or from the millions of unlicensed neighborhood providers would be ineligible for assistance; together these two groups comprise roughly 75 percent of all young children in day-care.<sup>19</sup> Overall, no more than one young child in ten would be likely to receive subsidized care under the ABC plan.

### **Reverse Robin Hood**

The Dodd-Kildee bill would take from the poor to give to the wealthy. Over 80 percent of day-care users are two-parent/two-earner families. Two-parent/two-earner families have a median income which is nearly 50 percent higher than the income of traditional two-parent/single-earner families. Under ABC, traditional two-parent/single-earner families would be taxed to provide day-care subsidies for more affluent families with two earners.

Though children of needy single working mothers also would receive subsidized care, they are only a small percentage of the children using day-care. Moreover, the median income of single mothers who work full time is \$21,958 per annum. After adjustment for differences in family size, this is only slightly less than the median income of two parent/single-earner families, which would receive no benefits.

True, the ABC bill does attempt to ensure that subsidized care goes only to families with incomes below 115 percent of the state median for families of comparable size. But such a limit would include many families with high incomes. In California, for instance, a family of four with an income of \$41,656 would be eligible; in Maryland the limit would be \$46,063; in New Jersey, \$46,929. Moreover, two-earner families with incomes above the 115 percent threshold already receive billions of dollars in day-care subsidies through the current day-care tax credit.

While ABC proponents make pronouncements about aiding low income families, the bill would not require that any specific percentage of its funds to be targeted to low income families. The bill does not even require states to report the portion of ABC funds that actually reach low income beneficiaries.

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<sup>19</sup> Bureau of the Census, *op. cit.*

## The Assault on Religion

Section 20 of the bill states that a day-care center in a religious institution which receives any ABC funding, either directly or through vouchers, is prohibited from providing any religious influence on the children in its care. This means that children could not say grace over their milk and cookies. In any room used for day-care within such an institution, religious pictures and images would have to be turned to the wall or covered with sheets to hide them from children's eyes. Any teacher or teacher's aide at a religious school would be barred from working in or assisting on an unpaid basis in a care center located in the school. Religious day-care centers receiving funds would be barred from favoring members of their own faith when hiring child-care workers. And all religious day-care centers, even those which refused federal funding, would be subject to federal regulations concerning the educational and professional qualifications of day-care staff, child/staff ratios, and possibly curriculum.

The effect of these provisions would be to "sanitize" church-run day-care centers of their religious content. Centers that refused to be fully secularized would be denied federal assistance, and thus placed at a substantial economic disadvantage and forced to play a gradually smaller role in the child care market.

**Heavy Tax Burden.** The long run picture is even worse. The backers of ABC explicitly envision government-subsidized day-care as the principal form of child care in the near future. Parents who wished their children to be raised in a religious environment would be barred from government assistance while being forced to bear a heavy tax burden to support a nationwide system of secularized day-care of the children of other parents.

Even if the extremely offensive provisions of section 20 were struck from the bill, the impact would differ little, since federal programs must comply with the prevailing Supreme Court view of the separation of church and state. According to this view, restrictions on religious activity are inherently linked to any federal subsidy. Example: The Department of Housing and Urban Development recently barred religious services in Salvation Army shelters for the homeless which received partial HUD funding. Similar restrictions have not yet been imposed on religious institutions receiving Head Start and Title XX day-care funds only because no litigation has yet been instituted. With the massive funding available under ABC, cases would not be long in coming.

Any program of direct subsidization of day-care, or even the provision of day-care vouchers, ultimately will restrict the activities of religious day-care centers. Such a program will tend to force religious institutions to abandon the day-care field by placing them at an economic disadvantage.

**Penalizing the Inner City.** Church-run centers in the inner city would be the greatest victims of this no-religion policy, an ironic result given Dodd-Kildee's professed aim of helping the poor. While early childhood development strategies touted in the ABC plan are seldom of enduring benefit to disadvantaged children, religious institutions and the strong moral values they inculcate have an unchallengeable record in helping inner city youth escape from drug addiction, illiteracy, and poverty.<sup>20</sup>

## REDEFINING THE DAY-CARE ISSUE

Even if the Dodd-Kildee proposal worked exactly as its proponents contend, it still would be bad public policy. Families with young children currently use four different methods to care for their children: care by the mother; care by relatives; care by informal neighborhood providers; and care in professional group care facilities. Toward these four, government policy should take a neutral position, allowing parents to choose the approach they prefer. Uncle Sam should not subsidize one mode of child-care to the detriment of the others. In particular, policy should not discriminate economically against families in which a child is cared for by its mother or relatives.<sup>21</sup>

Federal policy already discriminates against traditional families where the mother is not employed; ABC would introduce further discrimination. Through tax credits and direct outlays, the federal government provides between \$5 billion and \$6 billion in financial support to families with children using day-care. Nearly 40 percent of the cost of day-care nationwide is financed by the federal government.<sup>22</sup> ABC would provide an additional \$2.5 billion in federal spending plus a half billion dollars in matching state funds. The federal government already provides roughly twice as much financial assistance to each young child in a two-parent family using day-care, through tax exemptions and credits, as it does to a

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20 Richard B. Freeman, "Who Escapes? The Relation of Churchgoing and Other Background Factors to the Socio-economic Performance of Black Male Youths From Inner-city Poverty Tracts," in Richard B. Freeman and Harry J. Holzer, eds., *The Black Youth Employment Crisis* (Chicago: University of Chicago Press, 1986).

21 This is especially true since there is evidence that care by a mother is best for the physical health and psychological development of small children. Young children in day-care are much more likely to contract serious infectious diseases such as hepatitis, cytomegalovirus, and haemophilus influenza type b (HIB), a bacteria that can cause pneumonia and lethal meningitis. Dr. Jay Belsky, a leading authority on child development, warns that separating an infant from its mother may cause "insecure attachment" to the mother, disrupting the child's emotional development and leading to aggressive and uncooperative behavior in later years. This does not mean that parents should rush to abandon day-care, but it does call into question any government policy that deliberately discriminates against mothers at home while subsidizing the entry of mothers with young children into the labor force. See Jay Belsky, "Infant Day Care: A Cause for Concern?" *Zero to Three*, September 1986.

22 Federal government outlays and tax expenditures on day-care are estimated to be between \$5 billion and \$6 billion. Total spending on day-care from public and private sources is approximately \$14 billion to \$15 billion. Bureau of the Census, *op. cit.*, p. 2 and unpublished HHS data.



young child in a traditional two-parent family where the mother remains at home — despite the fact that traditional families in general have lower incomes.<sup>23</sup> If the ABC bill passed, this ratio would rise to three to one.

### **The Real Problem: Families are Over-taxed**

American families do face significant policy-related problems in trying to raise their children. The most important problem is a tax code biased strongly against children. In 1948, a family of four at the median income level would have paid 1 percent of its income to the federal government; in 1984, the same family would have had to pay 17.5 percent. Eugene Steuerle, a Treasury Department tax specialist, notes that between 1960 and 1984 the average tax rate for single persons and married couples with no children did not increase, but for a married couple with two children it climbed 43 percent; for a family with four children, tax-rates increased 233 percent.<sup>24</sup>

The major cause of this growing anti-family distortion of the tax code has been the eroding value of the personal exemption. In 1948, a personal exemption of \$600 equalled 42 percent of average personal, per capita income, which was then \$1,434. Over the following 35 years, the personal exemption lagged far behind as incomes rose and inflation soared. While the 1986 tax reform is raising the value of the exemption to \$2,000, this only partially offsets the erosion suffered since the 1940s. To have the same value relative to income it held in 1948, today's personal exemption would have to be raised to \$6,468. Many women with young children now enter the work force when they would prefer not to because their family income has been eroded by excessive taxation.

### **CRAFTING A PRO-FAMILY POLICY**

A policy designed to support the American family would begin not by subsidizing families that use professional day-care while further taxing families that choose other child care methods. Instead, policy would reduce the present oppressive tax burden on families with children. Such a policy would be based on six principles:

**1) Tax relief or financial support for all families with young children.** This policy would not discriminate economically against families where the mother remains home to care for her own children. Families where children are cared for by a mother, a grandmother, or a day-care center should all be treated equally.

**2) Financial resources directly for families with children** instead of funding for bureaucrats and social service professionals.

**3) Tax reduction for middle income families and grants for lower income families** who pay little or no taxes. Any grant system must foster self-support rather than dependency.

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23 Families with children in day-care benefit both from a personal exemption for each child and the dependent care tax credit. Families that do not use day-care benefit only from the personal exemption. The average value claimed for the dependent care credit is \$409 per return. The tax reduction from the personal exemption is approximately \$400.

24 Alan C. Carlson, "What Happened to the Family Wage?" *The Public Interest*, Spring 1986, pp. 11-12.

4) **Use of the added income in any manner chosen by the family.** This could be to offset the loss of income when a mother stays at home, to allow a mother to work less, or to pay for additional day-care.

5) **No federal regulation of day-care** and no restrictions on the type of day-care that the family could purchase with the tax rebates or funds provided. Funds could be used for day-care by a relative, an unlicensed neighborhood provider, or a professional day-care center.

6) **The greatest relative support for working class and low-income families.**

The starting point of a pro-family policy would be to restore the value of the personal exemption for young children back to the relative level that existed in the 1950s. Low income, working families with children, currently paying little or no taxes, would receive cash assistance through an expansion of the Earned Income Tax Credit. The EITC is a wage supplement which pays benefits as a fixed percentage of earned income. In traditional welfare programs, benefits are linked to negative behaviors, such as out-of-wedlock births, prolonged unemployment, and marital disintegration. The EITC operates in the opposite manner: it rewards socially constructive behavior, promoting responsibility, work, and family stability. Only individuals who work receive EITC payments. In traditional welfare programs, the more an individual works, the more his benefits are reduced. With the EITC, benefits are increased the more the recipient works.<sup>25</sup>

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<sup>25</sup> Ironically, the day-care bills (S.1678/S.1679) introduced by Senator Orrin Hatch, the Utah Republican, violate all the principles of a true pro-family policy. Senator Hatch accepts the premise that there is a critical shortage of day-care and that the proper response is bureaucratic subsidization of the industry; the Hatch proposal is basically a scaled-down version of the ABC plan. Senator Hatch would provide \$875 million in subsidies to day-care centers over three years. Like the ABC bill, the Hatch plan lays the foundation for future massive government subsidization and regulation of day-care. As compensation for families that do not use day-care, the Hatch bills would offer an additional personal exemption for six months for mothers who remain at home with a new-born infant and an expanded Individual Retirement Account (IRA) for homemakers. The Hatch proposal violates the principles of a true pro-family policy in the following ways. First, rather than rectifying the existing bias in policy against traditional two-parent/single-earner families, the Hatch bills would intensify it. The assistance provided to the average family using professional day-care would be far greater than the assistance provided to the average traditional family. By establishing separate programs for families using day-care and for traditional families, the Hatch proposal invites future discrimination against traditional families. Second, while the Hatch bills do not call for federal regulation of day-care, they would promote expanded state regulation, including professional credentialing of day-care providers. Hatch funds would go only to licensed facilities; thus, as in the ABC bill, no more than one young child in ten would benefit. Third, the Hatch bills practice "Robin Hood in reverse." The bulk of benefits would go to upper-income/two-earner families; low-income traditional families would be taxed to pay for subsidized day-care for more affluent families. When they do use day-care, low-income families are unlikely to use the professional group care centers subsidized by the Hatch plan. Fourth, a major portion of the Hatch funding goes to bureaucrats and professional service providers rather than families and children. Fifth, by subsidizing only regulated day-care centers, the Hatch plan establishes the principle that the government, rather than parents, should determine what type of care is best for children. A true pro-family policy would provided added revenue directly to families and allow them to spend it as they see fit.

## The Toddler Tax Credit

Pro-family principles are embodied in the "toddler tax credit" soon to be introduced in the House by Representative Schulze of Pennsylvania. His bill would provide a \$750 direct tax credit to families for each child under six; this is roughly equivalent to raising the personal exemption for young children to \$6,000.<sup>26</sup> In addition, the Earned Income Tax Credit would be expanded for low income families with young children.

The Schulze bill would:

1) **Provide families with incomes over \$13,000 a tax credit of \$750** for each child under age six to be applied against federal income and social security taxes. If the value of total tax credits exceeded tax liabilities, the balance would be refunded in cash.

2) **Provide families with incomes below \$8,000 per annum a cash refundable "earned income tax credit for young children" (EITC/YC).** This EITC/YC would provide a wage supplement of \$15 for each \$100 earned by the parent for the first child under age six in the family. For each additional child under age six in the family, a wage supplement of \$10 for each \$100 earned would be paid. Thus a family with two young children earning \$8,000 would receive \$2,000.

3) **Reduce for families with incomes between \$8,000 and \$13,000 the EITC/YC rate** incrementally from 15 percent for the first child under six and 10 percent for each additional child to 5.75 percent per child.

4) **Replace the existing dependent care tax credit** for children under six with the "toddler tax credit." For children over six the existing dependent care credit would be continued.

5) **Limit eligibility for the EITC/YC to families with working parents.** Families in the Aid to Families with Dependent Children program would not be eligible for the EITC/YC. AFDC families would continue to be eligible for direct government payments for day-care up to \$160 per child per month.

Approximately 18 million young children would be eligible for tax relief or cash assistance under the Schulze bill. The program would be phased in over a five-year period. During the first three years, federal outlays under the Schulze plan would be about \$300 million per annum compared to \$2.5 billion under the ABC plan. The Schulze plan would provide approximately \$2.2 billion per annum in tax cuts for families with young children during the first three years. By the fifth year, tax relief for American families under the Schulze proposal would exceed \$7 billion per annum. After the fifth year both the tax credit and the income levels used in determining the EITC/YC payments would be indexed against inflation. Overall, the policy would help remove the anti-child bias in the tax code.

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<sup>26</sup> The \$750 per child tax credit is equivalent to raising the personal exemption upward by \$3,000 to \$5,000 depending on the family's tax bracket. Families who receive the \$750 per child tax credit or EITC/YC payments would continue to be able to claim a personal exemption of \$2,000 for each child as well. Thus the Schulze policy overall is roughly equivalent to raising the personal exemption to \$6,000 per child for the average family.



## CONCLUSION

Most women will spend many years in the paid labor force. The choice of whether a mother, particularly a mother with young children, should or should not be employed must be made by each family. The government should not bias that choice through its outlays and tax code. The government does bias that choice as long as it taxes families in which a mother remains with her children — to provide subsidized day-care to families where the mother is employed. Similarly, in families where the mother is employed, the choice as to what type of day-care is most appropriate should be made by the family, and not by government bureaucrats.

**Eliminating the Anti-Child Bias.** The Dodd-Kildee ABC bill discriminates against families where the mother makes an economic sacrifice to remain at home and care for her children; by contrast, the "toddler tax credit" treats all families with young children equally. The ABC plan funds bureaucrats and social service professionals; the toddler tax credit funds families and children. The ABC bill would assist, indirectly, no more than one child in ten; the toddler tax credit would assist directly all working families with young children.

The ABC bill would create a new social welfare bureaucracy but would do little to aid families with children. A true pro-family policy would begin by eliminating the anti-family/anti-child bias that has crept into the federal tax code over the last three decades. Such a policy would strengthen families by recognizing that American parents, not federal bureaucrats, are best able to determine how money should be spent to meet their family needs.

Robert Rector  
Policy Analyst

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**APPENDIX**  
**Mother's Employment and Types of Childcare**  
**for American Children**

**Table 1 Young Children whose Mothers are Employed by Age Group**  
**(numbers in thousands)**

<b>Age of Child</b>	<b>Children with Employed Mothers</b>	<b>Total Children In Age Group</b>	<b>Percent with Employed Mothers</b>
Under Age One	1,385	3,683	37.6%
One and Two Year Olds	3,267	7,084	46.1%
Three and Four Year Olds	3,516	7,158	49.1%
Total: Under Age Five	8,168	17,925	45.5%

**Table 2 Children Under Five and Mother's Employment Status**  
**(numbers in thousands)**

<b>Employment Status</b>	<b>Children Under Five</b>	<b>Percent of All Children Under Five</b>
Mother is Not Employed	9,757	54.4%
Mother is Employed Part-time	3,108	17.3%
Mother is Employed Full-time	5,060	28.2%

Sources for Tables 1 and 2: The Bureau of the Census, U.S. Dept. of Commerce, "Who's Minding the Kids?" *Household Economic Studies*, Series P-70, No.9, May 1987. Data for this census report were collected through a day-care survey conducted between December 1984 and March 1985. Numbers on total children in specific age groups are for January 1985; data provided by the Bureau of the Census.

**Table 3 Type of Day-care Arrangement: Children Under Five**

<b>Type of Child Care</b>	<b>Number of Children in Each Type of Care</b>	<b>Total Children Under Five</b>	<b>Percentage of Children in Each Type of Care</b>
Mother is not Employed: Care by Mother	9,759	17,925	54.4%
Mother is Employed: Care by Relative	3,920	17,925	21.8%
Mother is Employed: Informal Care by a Non-relative	2,298	17,925	12.8%
Mother is Employed: Care in Group Day-care Facility	1,948	17,925	10.9%

Sources: Same as Tables 1 and 2.