

June 19, 1989

A LOOK AT THE "NEW" ABC BILL: RESTRICTING PARENTAL CHOICE IN CHILD REARING

INTRODUCTION

A key decision is coming soon in the Senate on child care legislation that could reshape the American family. One of the bills being debated, the Act for Better Child Care (or ABC), introduced by Senator Christopher Dodd, the Connecticut Democrat, and in the House by Congressman Dale Kildee, the Michigan Democrat, is a foot in the door to a far larger government-funded day care system. Amended at the last minute by Senate Majority Leader George Mitchell, the Maine Democrat, the new ABC bill is divided into two titles. Title I would provide at least \$7 billion in grants to day care centers over the next four years. Over the same period, Title II would provide 4.3 billion in refundable tax credits to families who hired others to care for their children and 2.8 billion in health insurance tax credits.

The debate also will focus on an alternative to ABC. It is the proposal by George Bush to relieve America's overtaxed families while maximizing parental choice in child care. Unlike Dodd-Kildee's recipe of more government spending on bureaucrats and social service institutions, the Bush plan would allow parents to keep more of their own money through tax relief. Unlike ABC, the Bush proposal would aid all low-income working families with young children, not just families using day care centers. It would maximize parental choice in child care, providing tax relief to parents whose children are cared for by grandparents, neighbors, and churches. As important, the Bush proposal would not discriminate against working-class families who sacrifice financially to allow one parent to remain at home to raise young children.

Tax Relief for Families. The main points of the President's plan are embodied in S. 601, introduced by Senator Robert Dole, the Kansas Republican, and the Toddler Tax Credit (H.R. 2008), introduced in the House by Republicans Clyde Holloway of Louisiana and Richard Schulze of Pennsylvania. These bills would provide tax relief to low- and moderate-income working families with young children, giving a tax credit of up to \$1,000 for each young child. Lower-income families would receive the highest benefits. Very low-income families with no tax liability would receive cash assistance in the

form of a refundable tax credit. Parents then could use these funds to meet the family needs they determine are most important.

Expanding Parents' Choices. The bottom line: ABC funds bureaucrats and institutions; the tax credit policy funds parents. ABC, meanwhile, discriminates against church-based day care centers, which actively provide religious values to children. The tax credit policy does not discriminate against parents who want a religious upbringing for their children. ABC would lower the quality of child care in the United States by disproportionately subsidizing only the type of care least preferred by parents and least healthy for children: care in formal secular centers. The tax credit policy expands parents' child-rearing choices by including that care which is best for children: care by parents, grandparents, and neighbors.

Facing severe criticism from the National Governors Association (NGA), among others, Senator Dodd has accepted last minute changes to the bill through an amendment by Senator Mitchell (amendment no. 196). The NGA, however, has not endorsed the revised bill, which still aggressively usurps state authority and imposes a vast array of regulatory mandates on the states.¹

Acknowledging Critics. In accepting the recent changes to ABC, the bill's backers have acknowledged that ABC critics for the last two years have been philosophically correct. It is wrong, they now acknowledge: 1) to fund institutions rather than parents; 2) to limit parental choice in child care; 3) to discriminate against parents who care for their own children; and 4) to discriminate against parents who want a religious upbringing for their children.

The Mitchell amendments to ABC, however, do little to alter the restrictive, discriminatory, and anti-religious nature of the bill.

HOW ABC IGNORES CHILD CARE REALITIES

Many ABC advocates argue that traditional parental care is obsolete. Most preschool children, these advocates contend, now or soon will be raised in day care centers, and thus, the interests of the day care industry and the American family are identical. But they are not.

¹ The analysis of ABC presented in this *Issue Bulletin* is based on the version of S. 5 as amended by Senator George Mitchell (amendment no. 196).

Penalizing Traditional Families

More than 9.7 million preschool children, or over half of the preschool children in the U.S., are still cared for at home by their mothers.² ABC discriminates against these children. It imposes a "parenting penalty," taxing families who make an economic sacrifice to raise their own children in order to pay for subsidies to more affluent parents who choose to have their children raised in day care centers.

Rejecting Families' Preferences. ABC advocates respond to the charge that the bill discriminates against parents who care for their own children by maintaining that most parents in fact want to put their children in day care centers, but cannot do so because of the "day care shortage," and so are forced to be one-earner families. In fact, the opposite is true. Some 70 percent of mothers state that they would prefer to remain at home with their children if they could afford to do so.³ And by two to one, mothers under age 44 state that they do not regard the increasing use of day care centers as a good thing.⁴ Thus, the ABC bill – which subsidizes mainly day care centers – rejects the preferences of most American families.

When pressed, ABC advocates justify discriminating against traditional families by arguing that such families are more affluent than families using day care.⁵ While it is true, of course, that an employed single mother with young children uses day care from economic necessity, some 80 percent of young children in day care come from two-parent/two-earner families. The median income of two-earner families was \$38,346 in 1986, or 50 percent

2 The Bureau of the Census, U.S. Department of Commerce, *Who's Minding the Kids?*, Household Studies, Series P-70, No. 9, (Washington, D.C.: U.S. Government Printing Office, May 1987.) The data for this Census report were collected by a survey run from December 1984 to March 1985. The Census report covers only children with employed mothers; to determine children in different child care arrangements as a percentage of all young children in the population, the children under five in *Who's Minding the Kids?* have been divided by the total number of children under age five in January 1985. The procedure is consistent with the original methods used by the Census to estimate the aggregate number of children with employed mothers in different types of day care from the original survey sample. See Robert Rector, "The American Family and Day-Care," *Heritage Foundation Issue Bulletin*, No. 138, April 6, 1988, pp. 16-17. See also The Bureau of the Census, U.S. Department of Commerce, Current Population Report, Series P-20, No. 423, *Marital Status and Living Arrangements: March 1987* (Washington, D.C.: U.S. Government Printing Office, 1988), p. 43, which provides nearly identical data on children for 1987: 55 percent of children under six live with one or more nonemployed parents.

3 Source: "Opinion Roundup," *Public Opinion*, July/August 1988.

4 *Ibid.*

5 Barbara Reisman, Amy J. Moore, and Karen Fitzgerald, *Child Care: The Bottom Line* (New York: The Child Care Action Campaign, 1988), p. 31.

more than the median income of "traditional" families.⁶ In fact, the average salary in a traditional family, where the father works while the mother remains home with young children, is only slightly higher than the average salary of the husband in families, where both spouses are employed.⁷

Taxing Traditional Families. In contrast with the picture painted by ABC advocates, traditional families are among America's least affluent families. The number of traditional families with young children with incomes less than \$15,000 per year exceeds the number of low-income families headed by employed single mothers in that income class. Yet under ABC, these traditional families would receive virtually no assistance — they would be taxed to provide day care subsidies to two-earner families earning up to \$42,000 per year.⁸

Is There a Day Care Shortage?

Contrary to what ABC advocates would like Congress to believe, institutional day care is used for barely more than one-tenth of children under five. Over half of preschool children are cared for at home by their mothers. But even in families where the mother is employed, use of formal institutional day care is uncommon. Seven percent of children under five are cared for by "tag-team" parents who work different shifts.⁹ Another 4 percent of preschool children are cared for by "double time" mothers who are employed in their own homes while caring for their children. Another 11 percent are cared for by a grandparent or other adult relative while the mother is employed. Overall, 76 percent of children under five are cared for by parents or relatives.¹⁰ Only 24 percent of children under five have non-relative care.

6 The Bureau of the Census, Current Population Reports, Series P60, No. 159, *Money Income of Households, Families, and Persons in the United States: 1986* (Washington D.C.: U.S. Government Printing Office, 1988), p. 58.

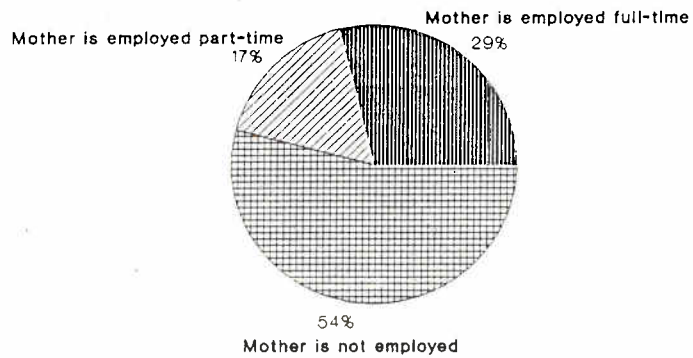
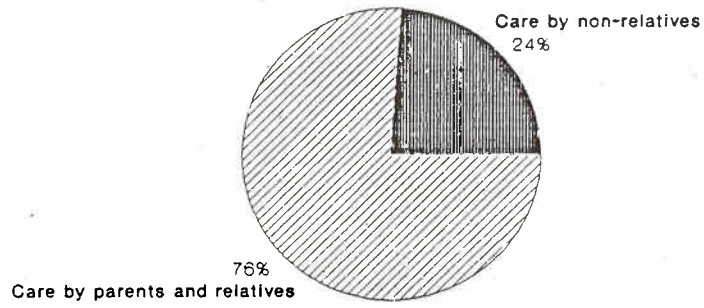
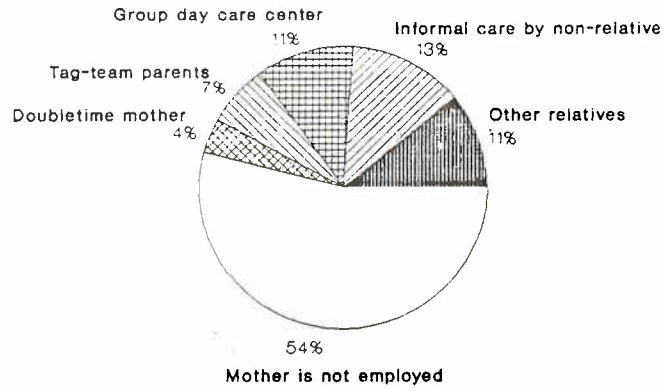
7 In those husband and wife families in which only the husband is employed, the average husband's salary was \$29,556 in 1986. In those husband and wife families in which both spouses were employed, the average husband's salary was \$27,074. Thus, there was only an 8 percent difference in the husbands' incomes. Source: Bureau of the Census, Current Population Reports, Series P60 No. 159, *op. cit.*, p. 83; and unpublished Bureau of the Census data for 1986.

8 See Robert Rector, "The American Family and Day-Care," *op. cit.*, and Robert Rector, "The 'ABC' Child Care Bill: An Attempt to Bureaucratize Motherhood," Heritage Foundation *Issue Bulletin*, No. 145, October 6, 1988.

9 See footnote #1.

10 *Ibid.*

Patterns of Child Care for Children Under Five



Heritage Infochar:

But even among those in non-relative care, a majority are not in formal day care centers. Most are cared for in a neighbor's home or through other informal arrangements. Overall, only 11 percent of children under five are cared for in formal day care centers.¹¹

Fast Growing Industry. The ABC legislation rests on the premise that this pattern of day care implies a chronic shortage in formal day care facilities. But this argument ignores the preferences actually expressed by parents.¹² And the theory that there is a bottleneck preventing an expansion of day care supply ignores the fact that day care is one of the fastest growing industries in the U.S. economy. Between 1960 and 1986, the number of children in day care centers soared from 141,000 to 2.1 million, an annual rate of increase of over 10 percent.¹³ Moreover, if there were supply bottlenecks and chronic shortages in day care, the price of care would have increased dramatically. But measured in constant dollars, the cost of care in day care centers has not increased during the last ten years.¹⁴

Far from a shortage of slots, the national day care chains, such as Gerbers, La Petite Academy, and Kindercare, report average vacancy rates nationwide of 25 percent.¹⁵ The National Child care Association, which represents independent private sector day care providers, reports average vacancy rates among its members of 15 to 30 percent. An extensive recent survey by the Labor Department also finds no evidence of a day care shortage, a conclusion echoed in a study by Dr. Sandra Hofferth of the Urban Institute.¹⁶

Who Gets ABC Funds

ABC proponents have been stung by criticism that their bill funds bureaucrats and social service institutions while severely restricting parental choice in child care. Backers of ABC on the Senate Committee on Labor and Human Resources respond with the claim that the bill in fact promotes choice and that 70 percent of the bill's funding under Title I would be provided as "direct assistance" to families.¹⁷ These claims are false.

In practice, parents would receive virtually no funds under ABC. Up to 30 percent of ABC funds under Title I would be spent on administration and regulatory compliance; nearly all of the remaining money would be given out as direct grants to day care centers. The distribution of funding would be so

11 *Ibid.*

12 In a June 28, 1986, poll by Associated Press/Media General, 82 percent of parents expressed a preference for child care by parents, relatives, neighbors, or churches. Only 6 percent expressed a preference for care by secular day care centers.

13 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. Phillip, "Child Care in the United States, 1970 to 1995," *Journal of Family and Marriage*, August 1987, p. 565.

14 Sandra L. Hofferth, statement before the Select Committee on Children, Youth, and Families, July 1987, p. 9.

15 Interview with Gordon Martin, representative for Kindercare and La Petite Academy, March 15, 1989.

16 U.S. Department of Labor, "Child Care: A Workforce Issue," Executive Summary, Report of the Secretary's Task Force, p. 10; Dr. Sandra Hofferth, "What Is the Demand for and Supply of Child Care in the U.S.," paper presented at the Family Impact Seminar, Washington, D.C., January 13, 1989.

17 U.S. Senate, Committee on Labor and Human Resources, *Report on the "Act for Better Child Care Services of 1989"*, April 12, 1989, p. 25.

sensitive to “grantsmanship,” political connections, and favoritism that the for-profit day care centers, which represent half of the centers in the U.S., actually oppose ABC, even though they would in theory be eligible for ABC funding. They recognize, correctly, that in the political free-for-all for ABC grants, they would get little or nothing.

No Voice for Parents. The day care industry should be accountable to parents, not to bureaucrats and politicians, yet parents will have little voice in how ABC funds are spent. True, ABC does allow states to introduce a modest “child care certificate” program, which would seem to promote parental choice. But experience with the Social Service Block Grant day care funds shows that a majority of states would not offer such certificates, and that in those states that did, only a tiny fraction of funds would be disbursed to parents in this manner.

Limiting Parental Choice

Senator Dodd and Congressman Kildee both have stated publicly that they believe traditional care for children by parents and relatives is obsolete.¹⁸ They believe that the modern family should contract out child rearing to “professionals” in government-controlled, secular institutions. They contend that, if a family elects to have its children cared for in professional institutions, the government should pay for all or a substantial part of the cost of that care. If, by contrast, a family clings to old-fashioned, nonprofessional modes of child care, it should be taxed to fund the institutional day care used by other families.

ABC backers are hostile to any child care that is not professional and bureaucratically controlled, especially care by grandparents. Kildee, for example, publicly stated that, if his mother were to care for his children (her grandchildren) in his own home, he would want her registered and trained by the government.¹⁹

Dangerous Intrusion. Needless to say, Americans find such views unacceptable. Backers of ABC responded to public criticism by falsely claiming to have changed the bill. After two years of debate they now claim that the ABC “child care certificates” would provide parents with the choice to have children cared for by grandmothers or even by religious day care centers.

But ABC does not require that states offer certificates to parents. Experience indicates that most states will not provide certificates. ABC thus does not offer parents choice in child care through certificates. It merely allows parents to petition state legislatures to create a certificate program. Groups supporting ABC will fight against creating certificate programs in each state, just as they have fought against including grandparents and religious centers in the ABC at the federal level. Well organized and skilled

18 U.S. Senate, Committee on Labor and Human Resources, Subcommittee on Children, Family, Drugs and Alcoholism, *Hearings on S. 1885 to Provide for the Improvement of Child care. March 15 and June 28, 1988* (Washington, D.C.: U.S. Government Printing Office, 1988), pp. 210 and 336.

19 Remarks made at the ABC mark up proceedings in the House Committee on Education and Labor, August 3 and 4, 1988.

in lobbying, these groups likely will prevail against the wishes of parents, who are politically unorganized.

ABC does not offer parents choice in child care. Rather it stacks the deck against parents who wish their children cared for by grandparents and religious day care centers.

A mother seeking to have her child cared for by a trusted friend or neighbor could face even greater barriers. The neighbor would have to reside in the rare state that offered certificates. She then would have to obtain a state day care license. To obtain the license in some states, she would have to acquire liability insurance and even perform structural alterations to her home. The neighbor then would have to undergo state training in child care and would be required to issue a written statement of her child care "policy and program goals" to the child's mother.²⁰ By erecting multiple barriers, ABC thus would make it extremely difficult if not impossible for parents to select care by grandparents or neighbors for their children. The bill effectively eliminates a whole range of parental choices in child care arrangements.

IS INFORMAL CHILD CARE HARMFUL?

ABC proponents would erect this regulatory labyrinth over child care because they believe unregulated, nonprofessional care — even by neighbors — is potentially harmful to children. Yet all the scientific evidence indicates the opposite: small-scale, unregulated day care generally is of higher quality and far better for the health of children than care in large licensed day care centers.

To understand this, it is necessary to recognize that the U.S. market for day care by non-relatives is covered in two different ways: group care centers, which care for six children or more; and family day care homes, which care for five children or less. There is wide agreement that group care centers should be licensed and regulated, and states do so. But some states do not regulate very small family day care providers. Even in those states that do, most family day care homes operate outside the law. Overall, some 90 percent of America's 1.75 million family day care providers are not regulated.²¹

A More Homelike Ambiance

The typical unregulated family day care provider is a mother taking care of one child of her own and one or two other children from the neighborhood.²² The average adult/child ratio in unregulated family day care is far higher than in even the most expensive day care centers. Further, a majority of parents with children in unregulated family day care homes knew the care giver for a considerable period before beginning the day care arrangement, and over half the children in this type of day care live within a few blocks of the care

20 Section 113(a) and Section 107(c)(12)(D)(i).

21 Hofferth, 1987, *op. cit.*

22 U.S. Department of Health and Human Services, *Final Report of the National Day Care Home Study*, September 1981, *passim*.

giver's home. In fact, over half of the providers are close personal friends of the parents of the children in their care. Over 75 percent of the parents state in surveys that their child has a "loving" relationship with the care giver.²³

The *National Day Care Home Study*, conducted during the Reagan Administration by the Department of Health and Human Services, finds no evidence that such unregulated family day care is dangerous or harmful. Indeed, the study concludes that family day care is

...stable, warm, and stimulating....[it] caters successfully to the developmentally appropriate needs of the children in care; parents who use family day care report it satisfactorily meets their child care needs...[the study's] observers were consistently impressed by the care they saw regardless of regulatory status.²⁴

Day Care Police

Nevertheless, the ABC legislation would create a tight web of federal and state regulations that would drive many of the 1.6 million unlicensed family day care providers out the child care market. The bill requires that states receiving ABC funding must demonstrate to the federal government that all child care providers "required to be licensed and regulated in the state...are so licensed and regulated."²⁵ To show a good faith effort at compliance, each state government would have to institute a massive network of regulators to ferret out and identify all the housewives providing "unlicensed day care" and impose stiff penalties on unlicensed care.

Compelling States to Regulate. ABC also would greatly reduce state flexibility in regulating small neighborhood providers. Half of the states currently require licensing or certification of all family day care providers, even those caring for a single child. But other states are more lenient, having a size threshold below which regulation is not imposed. While the bill does not explicitly require states to license all family day care homes, it would compel states in that direction since it requires that, if one day care provider is licensed, all similar providers must be uniformly licensed.²⁶ Furthermore, for a family day care home to receive ABC funds, it must be licensed by the state.²⁷ Thus if one family day care provider caring for a single child were to receive ABC funds, it would have to be licensed, and all other family day care homes of similar size within the state would have to be licensed.²⁸

23 *Ibid.*

24 *The Final Report of the National Day Care Home Study, op. cit.*, pp. 82 and 124.

25 S. 5, as amended, Section 110(1)(A).

26 *Ibid.*, Section 107(c)(3)(B)(ii).

27 *Ibid.*, Section 103(8)(A)(i).

28 For example, in Maine, family day care providers caring for less than three children are not required to be licensed. If ABC were enacted, these providers could remain unlicensed as long as no ABC funds were given to any day care provider in the state below that size threshold. If a single provider below the threshold were given ABC funds, then all similar small-scale providers would have to be licensed.

If ABC becomes law, the practical result would be that all mothers and grandmothers caring for even one neighbor's child would have to be licensed by the government and would have to undergo government training – even if no government funds were received. The result of this requirement is obvious: many of the 1.6 million housewives currently providing unlicensed child care assistance simply would stop caring for their neighbors' children in response to the cost and red tape. The result would be a real day care crisis.

Undermining State Authority

The bill would further erode state flexibility and increase red tape by mandating that a state receiving ABC funds can never make any current or future day care regulation less stringent without obtaining specific approval from the federal Department of Health and Human Services and a nonelected State Advisory Committee on Child Care.²⁹ This prohibition holds even if the state regulations are more stringent than the federal minimum standards established by ABC. The bill thus would establish a permanent “ratcheting” mechanism, leading to ever stricter regulation: a state would always be free to increase regulations, but once any standard had been increased, it could never be decreased without federal permission. ABC thus effectively would take away the authority of state legislators to regulate day care, instituting instead control by federal bureaucrats and nonelected advisors.

WOULD ABC IMPROVE THE QUALITY OF CHILD CARE?

ABC proponents claim that their bill would improve the quality of child care. In fact, ABC would do the opposite. It would subsidize disproportionately the lowest quality day care, in formal day care centers, and thereby discourage the kind of care that is most beneficial and healthful to children – care by parents, grandparents, and neighbors. For instance, recent research raises serious questions about the long-term psychological impact of full-time day care for children under age two, even in the most expensive institutions.³⁰ Other experts question the psychological implications of placing older preschool children full-time in the necessarily regimented formal day care centers.³¹

Effects of Group Day Care on Health

While the impact of day care centers on a child's psychological health is perhaps debatable, the evidence of the impact of day care centers on children's physical health is clear. Day care centers of the sort that would be

29 S. 5, Section 107(c)(3)(D)(ii).

30 Karl Zinsmeister, “Brave New World: How Day-Care Harms Children,” *Policy Review*, Spring 1988, pp. 40-48.

31 Otto Weininger, “The Daycare Dilemma: Some Reflections on the Current Scenario,” *The Journal of Family and Culture*, Summer 1985, pp. 1-23.

subsidized by ABC carry a greater risk of spreading serious infectious disease.³² These risks are largely absent for children cared for by relatives or (largely unlicensed) family day care providers. Children in day care centers are 4.5 times more likely to be hospitalized than children raised in other settings.³³ Dr. Stephen Hadler of the Centers for Disease Control, of the Department of Health and Human Services, estimates that day care centers cause 14 percent of all infectious hepatitis cases in the U.S.³⁴ Children in day care centers also are more likely to contract cytomegalovirus. While this virus does not harm the day care toddler, the child is likely to transmit the disease to its parents. If the mother is pregnant with another child, the cytomegalovirus infection can induce birth defects.³⁵

Another serious disease spread by day care centers is meningitis. In a study published in the *Journal of the American Medical Association*, Drs. Stephen Redman and Michael Pichichero found that preschool children are 3.8 to 12.7 times more likely, depending on their age, to contract meningitis if they attend a day care center than if they are cared for at home.³⁶ Extrapolating from the Redman and Pichichero findings, a reasonable estimate would be that day care centers cause 3,100 cases of meningitis among preschoolers in the U.S. each year.³⁷ Roughly one-tenth of these meningitis victims die, and a third suffer long-term mental impairment.

How ABC Would Undermine Religious Day Care

Under the original ABC bill, any church-based day care center imparting religious values to children through Bible stories, prayers, hymns, or other activities would be denied all federal funds.³⁸ Even in nonreligious day care centers receiving ABC funds, toddlers would be barred from saying grace over their milk and cookies. Religious day care centers would be forced either to purge the religious content from their programs or to operate without subsidies in competition with heavily subsidized day care centers. No doubt many would be driven out of the market. Parents who wished their children raised in a religious environment would find fewer available centers, and they would be discriminated against, being denied support, while being taxed to pay for secular day care for other families.

32 Thomas E. Ricks, "Researchers Say Day-Care Centers Are Implicated in Spread of Disease," *The Wall Street Journal*, September 5, 1984.

33 David M. Bell, et al., "Illness Associated with Child Day Care: A Study of Incidence and Cost," *American Journal of Public Health*, April 1989, pp. 479-484.

34 *Ibid.*

35 *Ibid.*

36 Stephen R. Redmond, M.D. and Michael E. Pichichero, M.D., "Hemophilus Influenzae Type b Disease: An Epidemiologic Study With Special Reference to Day-care Centers," *Journal of the American Medical Association*, Vol. 252, No. 18, November 9, 1984, pp. 2581-2584.

37 The Redmond and Pichichero research provides meningitis attack rates per 100,000 for day care children at specific ages. It also provides a meningitis attack rate per 100,000 non-day care children in the same age groups. Applying the net differences in attack rates per age group to the total number of children in each age category in day care centers nationwide yields an estimated total of 3,100 meningitis cases per annum attributable to day care centers. The specific age breakdown of children in day care centers was taken from *Who's Minding the Kids?*, *op. cit.*

38 *Ibid.*, pp. 48-49 and pp. 62-63.

Senator Dodd now claims to have eliminated the anti-religious aspects of the bill. Under the revised ABC, pro-religious day-care centers could not receive grants from the government, but they could, it is said, receive child care certificates paid by parents. But state governments would not be required to issue certificates to parents under ABC. And the same organized political groups that have fought against inclusion of religious day care in ABC at the federal level would no doubt continue the fight in the state legislatures and the courts to prevent creation of certificate programs or to bar use of certificates in religious centers. In fact, to prepare the ground for blocking the use of vouchers in religious centers, the ABC authors have even inserted language in the bill that opens the door to those who would challenge the constitutionality of using certificates for religious day care. They have inserted a severability clause, which allows the religious certificate portion to be declared unconstitutional by the courts without affecting the rest of the bill.

The anti-religious impact of ABC would not be limited to a denial of funds. Many states, especially those in the south, exempt religious day care centers fully or partially from state licensing and regulation. The ABC bill, however, stipulates that state governments must uniformly impose and enforce all existing day care regulations on all day care providers. ABC thereby bars states from exempting religious day care centers from the same regulations imposed on secular centers. If a state received ABC funds, it would be forced to impose state licensing and regulation on all religious day care centers, even those that did not receive one dime of federal or state money.

Even if these regulatory requirements were eased, the contradictions within ABC remain. ABC certificates can only be used in licensed day care facilities. But in states where religious day care is most common, religious centers are not licensed. Churches in these states regard day care as "Sunday school in the week" and find state licensing unacceptable. Thus ABC certificates would be largely irrelevant to parents seeking religious care in those states, even if the certificates were upheld in court. The bottom line: ABC continues to discriminate profoundly against parents seeking religious child care.

THE REAL PROBLEM FACING FAMILIES AND CHILDREN: OVERTAXATION

The real problem facing families with young children is not a lack of day care centers but a lack of disposable family income caused by excessive taxes. In 1950, a family of four at median family income paid 2 percent of its income to the federal government in taxes — today that same family pays roughly 24 percent.³⁹ A family earning \$30,000 a year, for example, pays between \$7,000 and \$8,000 in taxes. Even low-income families do not escape this burden. A father earning \$14,000 per year and trying to support a wife and two children pays \$1,660 in federal taxes. It is this heavy tax burden that forces mothers

³⁹ Tax rates presented in this paper include the income tax, the employee share of the Social Security tax, and the employer share of the Social Security tax. These taxes are generally recognized to be direct taxes on a parent's wages. The combined tax rates are reduced by the value of the earned income tax credit.

with infant children into the labor market to compensate for the erosion of family finances.

Most Americans would agree that government policy should not penalize parents for caring for their own children. At the very least, government policy should level the playing field so that does not bias a parent's decision in favor of employment and against parenting. Critics of ABC argue that the legislation does bias decisions against parenting by taxing traditional families in which the mother raises the children and subsidizing two-earner families.

Flawed Reasoning. ABC advocates, however, contend that the bill is not inequitable, pointing out that, when a mother becomes employed, she pays taxes on her wages. Subsidies to day care centers, they maintain, simply would compensate for the bias of taxation against mothers' employment.

There are three flaws in this. First, most employed mothers with young children do not use formal day care centers. Thus ABC would discriminate against the majority of employed mothers, as well as those mothers who care for their own children at home. Second, in many cases the subsidies provided by ABC would exceed taxes paid on a mother's earnings. Such a negative tax rate (where subsidies exceed taxes) would clearly not present a neutral choice between employment and caring for children. Third, in considering tax bias and child rearing, it is necessary to consider not just the effective tax rate on the mother's wages, but also the tax burden on the whole family income.⁴⁰ In a two-parent family with young children, child-raising decisions are influenced not just by taxes on the mother's earnings but by taxes on the father's earnings as well. As noted, most mothers state they would prefer to remain at home with their young children if they could afford to do so; many are forced to seek employment to compensate for loss of family income caused by high taxes on the father's income.

Key to Choice. High overall taxes on two-parent families create financial pressures which inherently bias mothers' decisions against child rearing and toward greater employment. The key to expanding parental choice in child rearing decisions is to reduce taxation on the whole family income, not to selectively reduce effective tax rates only on a mother's income by day care subsidies.

Even with the added health insurance tax credit, ABC discriminates against traditional families. Traditional families comprise 45 percent of all working families with young children with annual incomes below \$20,000. But even with the new ABC tax credits, such families would receive only 5 percent of ABC funding. Since eligibility for the health insurance credit would be limited, most low-income traditional families would receive no assistance at all under ABC.

⁴⁰ Economics literature shows that in most two-parent families with young children, there is a primary earner, who is predisposed toward full-time employment to support the family and a secondary earner, who is relatively more disposed toward child care activities within the home and less disposed toward full-time employment. In most families the primary earner is the father and the secondary earner is the mother. For simplicity in exposition, in the text of the paper, the primary earner is referred to as the father, and the secondary earner, as the mother. However, in reality, in some families, these roles would be reversed.

ABC VERSUS THE TODDLER TAX CREDIT

ABC typifies “inside the Beltway” special interest legislation that puts the aims and desires of organized and vocal segments of the day care industry above the interests of the vast majority of parents and children. The legislation stands in stark contrast with the tax credit legislation proposed by President Bush and Congressmen Holloway and Schulze. In particular:

1) **The ABC bill discriminates against traditional families**, and indeed, against the overwhelming majority of families with employed mothers as well. Two-thirds of low-income preschool children would receive little or no benefit from ABC.

2) **ABC is “Robin Hood in Reverse”** – it takes from the poor and gives to the rich. Under ABC, most low-income families with young children would be denied benefits, but they would be taxed to provide day care subsidies to families earning up to \$42,000 per year who use day care centers. In contrast with the ABC approach, rival bills proposing a toddler tax credit would aid all low- and moderate-income working families while targeting the highest benefits to the lower-income families.

3) **The tax credit bills put cash in the hands of parents** allowing them to keep more of their own earnings. These bills empower parents to make their own decisions regarding child rearing. ABC, on the other hand, puts cash in the hands of bureaucrats and politically selected day care centers.

4) **ABC will lower the quality of child care.** The bill subsidizes disproportionately the lowest quality of child care available: licensed day care centers. It discriminates against and discourages child care that is more developmentally appropriate and healthier for children: care by parents, by grandparents, relatives, and neighbors.

5) **ABC discriminates against religion.** Day care centers that provide religious values to children effectively would be denied funds; many would be driven out of business by subsidized secular centers. The Bush legislation leaves funds in the hands of parents who, if they wish, can use this money to pay for their children to be raised in a religious environment.

Some critics of the tax credit policy charge that it would not help low-income families because those families do not pay taxes. Most low-income families in fact do pay taxes, but for very low-income families with no tax liability, the tax credit bills provide a simple mechanism to distribute cash assistance through their weekly paychecks from their employers.

Other critics of the tax credit approach complain that a \$1,000 tax credit is not sufficient to pay the full cost of day care. But this criticism ignores the billions of dollars that the federal government already spends on day care through existing programs such as Social Service Block Grants and the Child care Food Program. Combined with these funds, already targeted to poorer Americans, the toddler tax credit policy would be sufficient to cover the full cost of center-based day care for low-income families choosing that type of care.

CONCLUSION

Critics of the Holloway-Schulze and Bush tax credit proposals charge that these bills are not really child care policies since they include families where children are cared for by a mother in the home. But child care, properly defined, encompasses all methods of raising children, including both parental and nonparental care.

Empowering Parents. Most Americans would agree that the family itself is the best and most important child care institution. George Bush and congressional supporters of the toddler tax credit recognize that the key to assuring the best care for children is to strengthen the family, empowering parents to care for their children within the home or in a wide variety of environments outside the home according to their preference.

Thus the day care debate is not just a question of who shall receive funds — parents or bureaucrats. Nor is it simply a question of what type of child care is best. It is a question of who shall decide what care is best for children. Parents, not the government, know how best to use limited resources to meet family needs. Parents, not bureaucrats, know how best to raise the children they love.

Robert Rector
Policy Analyst

All Heritage Foundation papers are now available electronically to subscribers of the "NEXIS" on-line data retrieval service. The Heritage Foundation's Reports (HFRPTS) can be found in the OMNI, CURRNT, NWLTRS, and GVT group files of the NEXIS library and in the GOVT and OMNI group files of the GOVNEWS library.

