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Why the federal government should subsidize childcare and how to pay for it

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Executive Summary

Most families need childcare. Childcare is expensive and licensed center-based care is unaffordable for families of poor to modest means. There is broad public support for more government spending on childcare as long as that spending does not result in another unfunded entitlement that worsens the deficit. Claims that more spending on childcare will pay back the taxpayer in the long run based on better child development or increased workplace productivity are shaky. Political appetite for more spending on childcare will be greater if a childcare subsidy can be paid for as we go with an offset elsewhere in the federal budget. The federal deduction for charitable contributions is a possible target for such an offset.

The plan for increased childhood subsidies outlined in this paper would cost $42 billion and would provide a substantial subsidy for every child from birth to fifth birthday in a family at or below 200 percent of the federal poverty level. This is nearly half the families in the U.S.

If current federal spending on childcare and early childhood programs, amounting to about $26 billion a year, were shifted to the new subsidy, $16 billion more would be required. The charitable deduction presently costs the U.S. Treasury $55 billion a year. A $16 billion offset for childcare would allow the proposed childcare subsidy to be budget neutral while leaving $39 billion on the table to continue the charitable deduction or to support various tax reform proposals that are in the works.

Most voters want government to spend more money of the care and education of young children, for the good of families and everything that flows from stable homes and supportive environments for children and adults. The policy arguments on this topic have largely been sideshows about research on long term benefits for children; whether it is desirable for government to gain substantial control over the environments in which young children are reared; and roles of the federal vs. state government. The immediate issues are more direct. The evidence shows clearly that many families need childcare and that licensed center-based care is not affordable for them. How can the federal government pay for it, assure that parents remain in the driver's seat, minimize unintended negative consequences (including overutilization), and achieve requisite political support?

The present paper provides one solution in the form of childcare and education savings accounts paid for with redirection of current federal spending on early education and care, and through an offset from the federal deduction for charitable contributions. There are other policy mechanisms that have overlapping goals, including a Trump plan involving tax credits. Now is the time and the opportunity for serious political consideration of new funding and delivery models for childcare.

Parents need childcare

Most young children in the U.S. have parents who work outside the home. Both parents work in 56 percent of married families with children under six. For single mothers raising a young child the employment rate is 65 percent. It is 83 percent for single fathers who are the custodial parent. Childcare is a necessity for these families, which in aggregate constitute 60 percent of families with young children.[1]

Good childcare is unaffordable

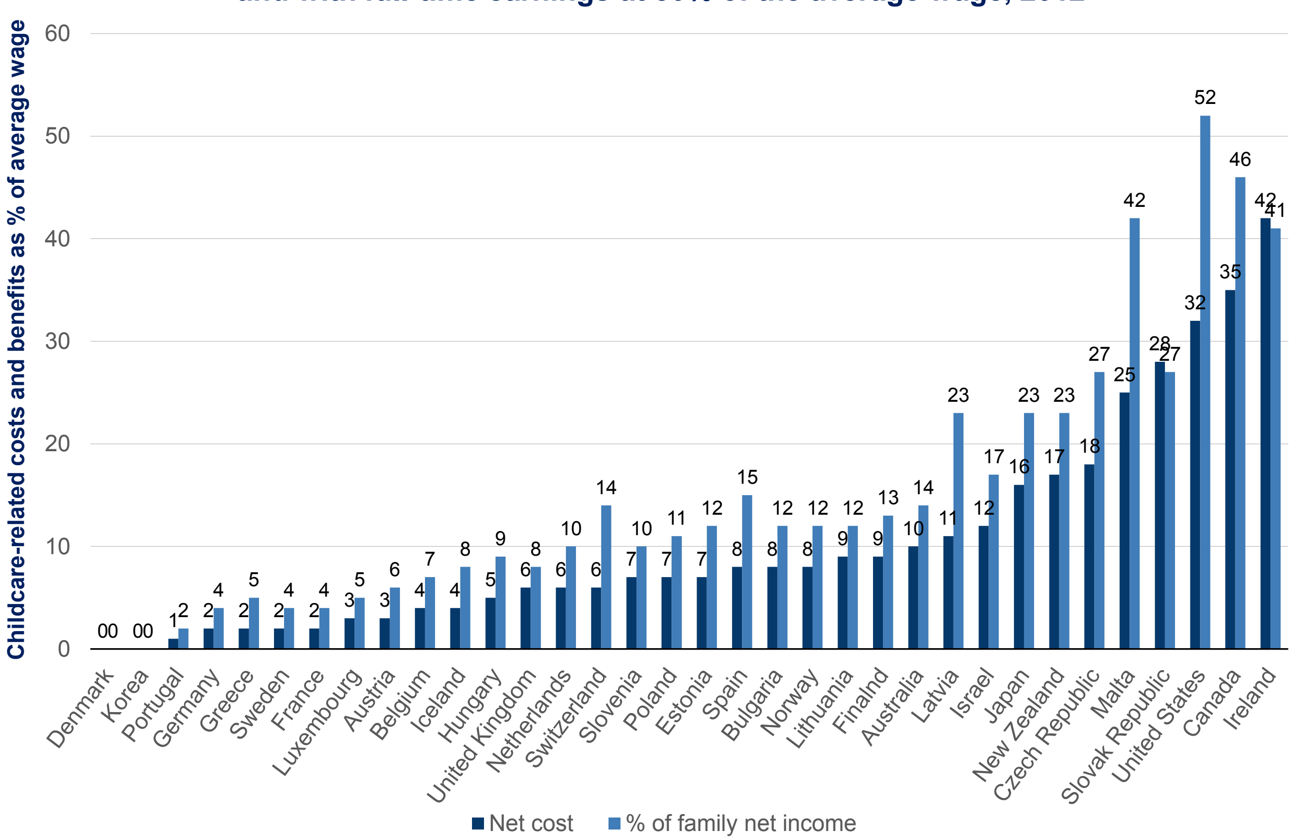
Center-based childcare is very expensive, both in absolute terms and relative to family income. One estimate pegs the average weekly cost of full-time (40 hours per week) daycare at $196 per child, or about $10,000 per year.[2] Other estimates are higher.[3] Costs vary substantially by geographical locale, age of the child, and form of childcare. For example, full-time center-based care for one infant or toddler ranges from about $5,000 a year in Mississippi to over $22,000 a year in Washington, D.C.[4] Costs for infants and toddlers are thousands of dollars higher per year than costs for preschoolers.

These costs are very high relative to family income.[5] Accredited, center-based childcare for a dual-earner family with two young children and with earnings at 150 percent of the average full-time worker's wage would cost that family, on average, 29 percent of their take-home pay. A poor single parent earning 50 percent of the national average wage would have to spend 52 percent of her income for the same services. The U.S. ranks dead last among developed nations on this measure of affordability, as illustrated in the subsequent figure for a single parent earning half the average wage.[6]

The U.S. Department of Health and Human Services concludes that affordable childcare should not exceed 7 percent of family income. There is only one state in the nation, Louisiana, in which the cost of center-based infant care for one child meets that definition for a married couple with the median income for the state.[7] In other words, childcare of the type and in the settings that experts favor for child development is simply unaffordable for a majority of working families, and a stretch for many others.

Parents are acutely sensitive to the costs and stresses

Net childcare costs for a sole-parent family with two children (aged 2 and 3) and with full-time earnings at 50% of the average wage, 2012



of obtaining childcare. A recent national poll found that 61 percent of parents who report that their financial situation is not strong say that the costs of childcare pose for them a financial problem, with about third of those parents indicating that the financial burden is "very serious."[8] And these results are in the context of parents who have frequently already cheaped out on childcare expenses by using unlicensed providers working out of their homes in the neighborhood. Were these parents forced to spend the national average of $10,000 a year for licensed, regulated center-based care virtually all would experience "very serious" financial burdens.

Unaffordable childcare has negative consequences

There are a range of consequences of the high costs and low affordability of childcare. Among them are deleterious effects on children of unregulated and often substandard childcare;[9] lost productivity for employers due to parents missing work to handle gaps in childcare or to care for a sick child;[10] lost wages and reduced retirement benefits for parents who have to drop out of the labor market to provide at-home care for their young children;[11] a substantial downward pressure on the wages of childcare workers with effects on the quality and stability of the childcare workforce;[12] and lost opportunities for further education,[13] college savings, and other investments that working parents could make in themselves and their children but cannot afford because they are spending most or all of their disposable income on childcare.

The public supports more spending on early childhood if it doesn't increase the deficit

That so many adults have faced, are facing, or will face the challenges of obtaining affordable, reliable childcare is probably one reason that national polls routinely find overwhelming public support for increasing federal and state spending on early childhood programs for low- and moderate-income families. Note, however, that voters condition their support on such expenditures paying for themselves in the long-term and not permanently adding to the federal deficit.[14] Let's call this the "must-be-paid-for" stipulation.

More spending on childcare is unlikely to pay for itself

The standard response to the must-be-paid-for stipulation by advocates of more public spending on childcare is that such expenditures will produce improvements in the cognitive, social, and emotional skills of young children that, in turn, will lead children to do better as they progress through school and enter the workforce as adults. Because they will get better jobs and earn more, it is asserted, tax revenues will increase. Likewise, it is said that children who have experienced childcare will be less likely to engage in criminal activities or to need social services as adults, thereby reducing government spending. The advertisement is that these returns on the investment in early childhood will more than pay back the public investment in the long term.[15]

I and others have written about the empirically shaky nature of these rosy investment projections.[16] We point out that the studies on which they are based are of a couple of small intensive programs from a half century ago that bear little resemblance to present daycare and early education programs, some of which have little in the way of explicit educational goals. Studies of modern, scaled-up programs that intend to impact long-term child development find, unlike the studies of small hothouse programs from the last century, that improvements in children's measurable skills and dispositions found at the end of participation in such programs usually fade away entirely by the time children are in the first few grades of elementary school.[17] There are also findings of null or negative impacts of childcare. For example, studies of the universal childcare program in Quebec, Canada have found that its introduction generated a very large increase in the use of childcare as parents who would otherwise have cared for their children at home took advantage of the free service. But at the same time, outcomes for children and mothers deteriorated.[18]

To the extent that the human capital returns to increased public expenditure on early childcare and education are uncertain, the substantial expenditures that would be necessary to make childcare affordable for low- to moderate-income parents have to be paid for in another way in if they are not to require raising taxes or increasing deficit spending.

Empirically grounded arguments can be made about economic returns to larger childcare subsidies that rely not on what children learn in preschool that might make them more successful in later life but on the impact on parents and all children in a family of the family having more disposable income as a result of having to pay less for childcare. Lower-income families need more money, and they do better when they receive it.[19] There are also substantial costs to employers related to employee absences and turnover caused by childcare breakdowns that would be reduced with increased childcare subsidies.[20] There is not, however, a strong empirical basis for estimating these costs, how much they would be reduced through an expanded childcare subsidy, and what effects this would have on tax revenues. To hold that increased spending on childcare will pay for itself through such savings is as wishful a speculation as the one that depends on the assumption that childcare produces better children who later become more productive adults.

A large new public expenditure on childcare would have significant negative effects on the federal budget in the near term. The call for many billions of new dollars of annually recurring federal expenditure on expanded support for childcare that is supposed to pay for itself way down the road is politically unrealistic.

More federal spending on childcare will require a budget offset

In that context, the task for those who want to identify a politically plausible way forward for increased childcare subsidies is to find an offset. In other words, what might the Congress be willing to spend less on in order to spend more on childcare?

Finding a place to cut federal spending in order to free up funds for childcare is, of course, not an easy task. Every federal expenditure of substance has beneficiaries that can be expected to oppose efforts to roll back the funding from which they reap an advantage. And the oxen to be gored are likely to be roused to greater levels of advocacy than those who would benefit from the redirected funds, who in this case are lower income families. Further, there are few federal funding programs for which a plausible argument of beneficence to the general public good cannot be made. The challenge, then, is to identify a present program of federal spending that can be restructured so as to free up funds for childcare that has vulnerabilities, political and functional.

The federal deduction for charitable contributions may fill the bill

Charitable contributions receive favorable treatment under the U.S. tax code and are expensive to the federal treasury. The tax benefit is structured in ways that many find perverse, both in who gets the deduction and how much value is provided for the general public. And while there are surely categories of federal expenditure that many people would find more attractive targets for redirection into childcare than the charitable deduction, e.g., carried interest, military spending, my goal is to be politically realistic.

Let's start with some background on the charitable deduction and how it works. The charitable deduction falls into a category of revenue losses, so-called tax expenditures, attributable "to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability."[21]

Specifically, the charitable deduction allows individual taxpayers and corporations to deduct from their taxable income in a given year the present value of contributions they make to nonprofit groups that are religious, charitable, educational, scientific, or literary in purpose, or that work to prevent cruelty to children or animals. Examples of organizations that qualify as recipients of contributions for the purpose of a tax deduction include non-profit educational institutions such as Harvard University, think tanks such as the Heritage Foundation and the Brookings Institution, hospitals such as St. Jude's, philanthropies such as the Gates Foundation, and arts organizations such as Lincoln Center. Of course, contributions to small or local organizations without the name recognition of my examples also generate the deduction.

The charitable deduction has conditions

There are four principal conditions on a taxpayer's charitable deduction to a qualifying organization.

First, the charitable deduction applies to a contribution up to but not exceeding 50 percent of the income of donor. For example, if a prospective donor has two million dollars in taxable income in a given year, that person can receive a tax deduction for donations of up to $1 million. In contrast, if the prospective donor has a taxable income of $20,000 they can only receive a tax deduction for contributions that have value of up to $10,000. An obvious consequence of this rule is that an individual with a large income can receive a deduction on a much larger charitable deduction in absolute terms than can an individual with a small income.

Second, the charitable deduction is only available to individuals who itemize their deductions. Only 30 percent of American taxpayers itemize.[22] Thus 70 percent of taxpayers, i.e., those who take the standard deduction, are frozen out of the tax benefits of charitable giving. Because higher income taxpayers are much more likely to itemize than those with lower incomes (e.g., 94 percent of individuals with incomes >$200,000 vs. 21 percent of those with incomes from $25,000 to $50,000), this tilts benefits of the charitable deduction heavily towards the affluent.[23]

Third, the value of a charitable gift for the purposes of a tax deduction is its present market value, not how much it cost the donor or its replacement cost. Thus, for example, a donation of clothing to the Salvation Army is valued at the market price of used clothing for the purposes of claiming the charitable deduction, not its purchase price or replacement value. This works against the interest of taxpayers of modest means who make small donations of personal property to charities. In contrast, it is a tremendous boon to wealthy individuals who typically make donations of items with appreciated value, most frequently stocks and bonds. The donor gets the charitable deduction on the present market value of the stock at the time it is donated, not the price at which it was purchased. This provision of the tax code provides a strong incentive for tax payers with high incomes in a particular year to donate stocks that have shown substantial long-term appreciation. Doing so both generates a large tax deduction and avoids what otherwise might be a hefty capital gains tax on the sale of those assets.

Finally, the amount of the charitable deduction is based on the donor's tax rate. The top marginal income tax rate for 2017 is roughly 40 percent for single filers with taxable income of $419,000 or greater. In contrast, the tax bracket for an individual with $30,000 of income is 15 percent. The low-income individual who gives $1,000 to his church and itemizes gets a federal incentive in the form of a $150 tax deduction for doing so, whereas the high-income individual who gives the same amount to his church gets a $400 tax deduction. The wealthy person gets over 2.5 times the match from the federal treasury as the poor person for exactly the same gift.

The charitable deduction favors the rich and is politically vulnerable

It is without doubt that each of these provisions of the charitable deduction heavily favor more affluent over less affluent taxpayers. There is, of course, the reality that it is more affluent taxpayers that have the money to donate and that incentives to them drive up the dollar totals of charitable giving. Notwithstanding this, the cost of charitable giving in functional terms is much greater as income diminishes, and so to reward the donations of lower-income taxpayers less than the donations of higher income taxpayers seems perverse. The lower-income family that tithes to their church may have to forgo a meal out or new clothes to do so, whereas the very affluent donor experiences only a reduction in net worth on a spreadsheet. Our tax policy on charitable donations provides the maximum tax benefit to those who can easily afford to donate whereas it provides the minimal benefit, and typically no benefit at all, to those who give despite limited resources.

In addition to federal tax incentives for charitable deductions that are heavily tilted towards the rich, the donations of the very wealthy often serve substantial self-interests. For instance, the big donor gets the new building at his alma mater named for him and gets a leg up for his children and grandchildren in college admission. High net worth people who establish a foundation can direct a portion of their fortune to the pursuit of goals through the foundation they hold dear but that may not be shared or prioritized equivalently by large segments of the taxpayer population. The general taxpayer is, nevertheless, subsidizing the work of that foundation through the substantial tax deductions given to its founder. Don't like the work of the Donald J. Trump Foundation, or the Clinton Foundation? If you're paying taxes, you're subsidizing both. And while there is not space here to develop the point, high wealth donors frequently advance the interests of their friends and family by seeing that they have positions and salaries at the non-profit organizations that the donors have created. They do this not inadvertently but with full awareness of the benefits such organizations can bestow through employment.

These and related criticisms of the charitable deduction are not new.[24] And they have resonance with some federal officials. For example, several members of Congress have in recent years raised the possibility of removing the charitable deduction from universities that have used it to generate huge endowments that do not seem to be spent much at all, much less spent to decrease the costs of going to college or to increase the enrollment of students from low-income backgrounds.[25] The Obama administration had cutbacks in the charitable deduction in its budgets.[26] And discussions about limiting the charitable deduction in one way or another are part of tax overhaul legislations to be put forward later this year by Speaker Ryan in coordination with the Trump administration.[27]

The point is that the charitable deduction is politically vulnerable despite the fact that it encourages private giving above levels that would occur without it.[28] Public spending for childcare has intentions that are generally congruent with those that motivate charitable giving. And childcare expenditures serve a population that is supposed to be the beneficiary of charitable giving. In that sense, the tradeoff of more spending on childcare for less spending on the charitable deduction has an organic appeal that reducing the charitable deduction to spend more on the military or just to help balance the budget under tax reform may not. It might be expedient for advocates of more spending on children to make the linkage and take the tradeoff before the charitable deduction is spent on something else.

The program: Childcare and education savings accounts

The politics of increased federal funding for childcare depend not only on data I've presented above on need and the availability of budget offsets from the charitable deduction, but also on how an increased subsidy would be delivered to families. Further, the outlines of a delivery vehicle are required in order to estimate costs. There are several ways that a federal subsidy for childcare might be accomplished. Three broad categories are: tax credits, grants to states, and savings accounts.

The tax vehicle would provide for increased deductibility or credits for childcare expenses, including perhaps refundable tax credits such that a family that has accrued childcare expenses but whose taxes would be reduced below zero with a childcare credit would receive a refund for the difference. There are several problems with a tax credit vehicle, as I describe subsequently. A critical one is that it delivers benefits to parents once a year in connection with a tax return whereas the costs for childcare are due and payable when they are being received. The childcare provider needs to be paid at the end of the week or beginning of the month. A tax credit the parent receives in April is mistimed for families that live from paycheck to paycheck.

A second mechanism is to have a childcare subsidy flow through existing federal programs that are intended to support states in the provision of needed services. The obvious program through which increased funding could flow would be the Childcare and Development Block Grant, which provides money to states to support the child care needs of low-income working parents. The Republican majorities in the House and Senate, as well as the Trump administration, are not likely to favor a vehicle that involves cutting bigger checks to states. Further, the Child Care and Development Block Grant has had many problems in design and in implementation at the state level which make it an undesirable foundation on which to build.[29]

Education savings accounts have been a popular policy proposal among Republicans in recent presidential campaigns.[30] Here, I tweak the concept and implementation of a federally funded savings account to adapt it to the particular circumstances of childcare:

Based on prior years' tax returns and birth records, parents of a young child that qualifies for childcare subsidies, as described subsequently, would have deposited to the child's name and their control in a federal Childcare and Education Savings Account (CESA) the amount of subsidy to which they are entitled for a given year. They would then pay their childcare providers through a transaction that debits that account. Half of any funds credited to the account in a given year that are not expended on childcare would remain in the account for expenditure on the care or education of that child until the child is an adult, e.g., leftover funds in the account could be expended on college tuition.

The carryover provision that allows a portion of unexpended funds for a given year to remain in the account and be available for use in subsequent years is a critical design feature. Without the opportunity for such carryovers there would be perverse incentives for parents who would otherwise stay home with their children or engage other family members in their children's care to move their children into center-based childcare in order not to lose their subsidy. Evidence previously described suggests that this may not be good for children or parents, on average. Further, a program that provides substantial incentives for parents to substitute institutional care for their children for full days and full years over the entire period from infancy to the beginning of kindergarten for their own care of their children will find many opponents.

As described in more detail below, a CESA with a carryover provision allows parents to cover needed costs of childcare that arise because the parent is at work or in school and has no family or friends who can care for her child, while providing a strong incentive through the carryover provision not to overspend on or over-utilize professional childcare services. Further, the savings accumulated through the carryover of unspent childcare subsidies are likely to have positive effects down the line on the family's economic circumstances and the ability to plan for and encourage a child's education beyond high school. As well, CESAs could serve as the vehicle by which additional federal transfers to support the education of economically disadvantaged students could be effected in lieu of what are presently separate programs, e.g., Pell grants.

The math on federal funding of childcare and education savings accounts

Two questions are paramount in addressing the budget consequences of federal spending for childcare through CESAs:

- How much federal funding is needed to make childcare affordable?
- How much of the charitable deduction would have to be redirected to pay for affordable childcare?

Answers to these questions depend on both facts, e.g., how much does the federal government currently spend on childcare, and assumptions, e.g., the number of families and children who would be covered and the amount of subsidy they would receive.

Costs

There are roughly four million children born each year in the U.S., of which about 23 percent live in poverty and another 20 percent who are in households that are between the federal poverty line and 200 percent of that level.[31] Thus, at any one time, there are about 3.6 million children under the age of five living in poverty and another 3.2 million between the poverty line and 200 percent of poverty.

By one estimate, the average cost of full-time center-based daycare in the U.S. for infants and toddlers approaches $12,000 per year, whereas it approaches about $9,000 a year for three- and four-year-old children.32

Assume that the federal government makes a contribution of these full amounts annually to the CESA of a child in a family at or below the poverty line based on the child's age ($12,000 for an infant or toddler, and $9,000 for a three- or four-year-old). Assume that the contribution is 75 percent of these amounts for a child in a family between the poverty line and 200 percent of poverty.

This information allows a calculation of the upper and lower bounds of costs of the proposed CESA program. We reach the upper bound if every family with an eligible child expends the full amount of the subsidy on full-time childcare in the year the subsidy is credited to the CESA, in which case the annual cost is about $64 billion. We reach the lower bound if no family expends any of the annual credit to their CESA and, instead, carries forward the allowed 50 percent of the unexpended credit. The lower bound is about $32 billion.

Where would costs likely fall between the unrealistic upper and lower bounds? That depends entirely on the level of utilization of paid childcare services by the parents of the eligible children and the charges the parents incur from service providers. Every dollar spent in the year in which it is credited to the CESA costs the government a dollar and moves the overall expenditure towards the upper bound, whereas every dollar saved and carried forward in the CESA costs the government 50 cents, when it is eventually spent, and moves the overall expenditure towards the lower bound.

Let's make the most conservative assumption with regard to utilization, which is that parents maintain the same rate of utilization of non-relative care as is presently the case (33 percent).[33] Let's pair that with the most liberal assumption with regard to parental spending on non-relative care, which is that every eligible child in nonparental care spends 40 hours a week in a licensed center that charges the parent the average national rate ($12,000 a year for infant/toddler care and $9,000 for preschoolers). Under these two assumptions, the estimated program costs are $42 billion a year.

The estimated program costs of $42 billion move higher if parents with a CESA are more inclined to use nonparental care than is presently the case, which seems likely. The estimate moves lower to the extent that parents use less than 40 hours of week of nonparental care, and continue to utilize family daycare and in-home help that is less expensive than the national average for center-based care, both of which seem likely. These are uncertain parameters that would have to be determined and updated based on program experience. For the purposes of this exercise, which is to determine feasibility rather than to produce a precise budget proposal, the ballpark figure of $42 billion a year will serve.

Revenue

I assume that current federal spending on early childcare and education programs will be redirected to the new CESA program since the existing programs serve functions that are substantially redundant with the proposed childcare subsidy. The most prominent of these programs, along with their FY 2016 budget authority, are listed in the following table.

Major current federal programs supporting childcare		
Program	**FY2016 budget (billions)**	**Source**
Head Start	$9.2	http://www.acf.hhs.gov/programs/olab/resource/acf-all-purpose-table-apt-fy-2014-and-fy-2015
Childcare Entitlement to States	$2.9	https://www.hhs.gov/about/budget/budget-in-brief/acf/discretionary/index.html
Tax Credit for Child and Dependent Care Expenses	$4.6	https://www.treasury.gov/resource-center/tax-policy/Documents/Tax-Expenditures-FY2016.pdf
Tax Credit for Employer-Provided Childcare	$1.0	https://www.treasury.gov/resource-center/tax-policy/Documents/Tax-Expenditures-FY2016.pdf
Childcare and Development Fund (Mandatory Portion)	$5.4	https://www.hhs.gov/about/budget/budget-in-brief/acf/mandatory/index.html
Childcare and Development Block Grant (Discretionary)	$2.8	https://www.hhs.gov/about/budget/budget-in-brief/acf/discretionary/index.html
Total	**$25.8**	

There are 45 separate federal programs through which money is spent on young children.[34] Several large programs that include childcare are omitted from the table (e.g., Social Services Block Grant, Child and Adult Care Food Program, Title I preschool grants), as are all the smaller programs. This means that the total current federal expenditure for young children in the table of roughly $26 billion is conservative. Note that Head Start, the largest item of expenditure in the table, would not disappear under the proposed CESA program. Rather individual center-based programs delivered under the Head Start banner would compete with other providers and would succeed to the extent that parents choose them for their children.

The existing federal annual expenditure on childcare of $26 billion plus a portion of the federal tax expenditure for charitable contributions is more than sufficient to cover the $42 billion bill, while leaving a substantial charitable contribution deduction in place.

The tax expenditure for charitable contributions for 2016 was $55 billion.[35] $16 billion of that would be needed, along with the existing $26 billion of federal expenditure, to make the proposed CESA program budget neutral. $39 billion would remain for the charitable deduction or other purposes.

There are variety of plans that have been proposed for cutting back the charitable deduction. The mechanics are not critical to the present proposal, although they could certainly bear on its political prospects. One proposal which deals with some of the severe tilt of the charitable deduction towards high wealth taxpayers is to cap the deduction at a fixed percentage of annual income, which would be invariant to the tax rate of the donor.[36] So, for example, rather than providing a deduction for a high income donor equal to that person's marginal tax rate of 40 percent, every donor regardless of taxable income would receive a deduction worth 10 percent (or some other fixed percentage) of the value of the donation. Another proposal is to cap the deduction at $100,000 for single filers regardless of their income.[37]

Clearly, tax reform proposals that directly change the provisions of the tax code for charitable deductions will affect the math relevant to that deduction as an offset for childcare subsidies. So, too, will changes in the tax code that indirectly affect the incentives for charitable giving, e.g., a much high standard deduction would reduce still further the proportion of taxpayers that itemize their deductions and, therefore, are affected by the charitable deduction. The specifics of a tradeoff between charitable deductions and childcare subsidies will have to await the resolution of these uncertainties about reforms in the tax code. One purpose of this report is to encourage those who have the responsibility for tax reform and the federal budget to consider the tradeoff while their plans are still being formed.

Choosing among the alternatives

The Republican majorities in the House and Senate, as well as the Trump administration, are likely to favor education savings accounts or tax credits, which deliver federal funds directly to families, over increased spending on the Child Care Development Block Grant or other programs that send money to states and other administrative entities.

There are good arguments to be made for both tax credits and education savings accounts. There are, as well, good reasons to want states to be involved in regulating the childcare industry to assure, at least, that minimal standards for quality are met and good information is provided to parents to help them choose among providers.

The Trump administration is at work on a childcare proposal, with the details presumably foreshadowed in the plan put forward during the campaign.[38] The Trump plan overlaps with the plan I've put forward in its intent to make childcare more affordable and its use of a delivery vehicle that sends dollars directly to parents rather than to state or local governmental entities. It differs from the present proposal in several important respects. First, it is virtually universal in coverage rather than targeted on families in the lower half of the income distribution. Specifically, it would provide benefits to couples earning up to $500,000 a year. Second, and connected to the near universality of the benefit, the financial subsidy for a family would be quite modest, e.g., a reduction of $840 in federal taxes for a family earning $70,000 a year and paying $7,000 for child care. There is virtually no benefit for low-income families.[39] Third, in the Trump plan, benefits are delivered once per year via income tax credits rather than being available when needed. Finally, the Trump plan isn't paid for, except to the extent that the "child care plan itself can more than be offset by additional growth."

Another approach that is out and about (and which might have had a brighter future if Hillary Clinton had won the election) is for a universal child allowance under which every family without regard to income would receive a monthly allowance per child, e.g., $300, to support the family's basic needs.[40] Unlike my plan, the universal child allowance is modest in amount per child, not targeted to families in need, not specific to childcare, and not budget neutral.

Clearly, from the prior presentation, I favor assistance that is targeted on families in need, subsidies that are generous enough to allow lower-income families to purchase center-based childcare at market rates, budget neutrality, assistance for childcare itself rather than a universal allowance that the family can spend on anything, and childcare and education savings accounts as the delivery vehicle. Tax credits as preferred in the Trump plan have a serious disadvantage compared to education savings accounts in that they provide once-a-year rebates whereas the bills for childcare are due and payable throughout the year. In contrast, funds in an education savings account would be deposited and available for expenditure soon after a child is born, topped up every birthday thereafter during the preschool period, and available for expenditure on that child's education needs through college and career training. I also favor a funding stream directly to states to support their roles in providing oversight and regulation of childcare.

Conclusions

Most families need childcare. Childcare is expensive and licensed center-based care is unaffordable for families of poor to modest means. There is broad public support for more government spending on childcare as long as that spending does not worsen the deficit. Claims that more spending on childcare will pay back the taxpayer in the long run based on better child development or greater productivity in the workplace are shaky. Political appetite for more spending on childcare will be greater if it can be paid for as we go with an offset elsewhere in the federal budget. The federal deduction for charitable contributions is an attractive target for such an offset.

The plan for increased childhood subsidies sketched in this paper would cost roughly $42 billion a year and would provide a substantial subsidy for every child in a family at or below 200 percent of the federal poverty level. This is nearly half the families in the U.S. If current federal spending on childcare and early childhood programs, amounting to about $26 billion a year, were shifted to the new subsidy, an offset of $16 billion would be required from tax expenditures on the charitable deduction to make up the difference. The charitable deduction presently costs the Treasury $55 billion a year. A $16 billion offset for childcare would leave $39 billion on the table to continue the charitable deduction or to support various tax reform proposals.

Families with young children are at the center of our nation's life and prospects. Childcare expenses for most of these families are both necessary and unaffordable. Most voters want government to do something about that, for the good of families and everything that flows from stable homes and supportive environments for children and adults. The policy arguments on this topic have largely been sideshows about research on long term benefits for children, whether it is desirable for government to gain substantial control over the environments in which young children are reared, and roles of federal vs. state government. The first order issues are more direct. It is clear that many families have to have childcare and that it isn't affordable for them. How can the federal government pay for it, assure that parents remain in the driver's seat, minimize unintended negative consequences (including overutilization), and achieve requisite political support? There are answers to these questions and openings for serious political consideration of new funding and delivery models.

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