

# Next Steps for Federal Child Care Policy

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*Mark Greenberg*

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## Summary

In Mark Greenberg's view, a national child care strategy should pursue four goals. Every parent who needs child care to get or keep work should be able to afford care without having to leave children in unhealthy or dangerous environments; all families should be able to place their children in settings that foster education and healthy development; parental choice should be respected; and a set of good choices should be available.

Attaining these goals, says Greenberg, requires revamping both federal child care subsidy programs and federal tax policy related to child care. Today subsidies are principally provided through a block grant structure in which states must restrict eligibility, access, or the extent of assistance because both federal and state funds are limited. Tax policy principally involves a modest nonrefundable credit that provides little or no assistance to poor and low-income families.

Greenberg would replace the block grant with a federal guarantee of assistance for all families with incomes under 200 percent of poverty that need child care to enter or sustain employment. States would administer the federal assistance program under a federal-state matching formula with the federal government paying most of the cost. States would develop and implement plans to improve the quality of child care, coordinate child care with other early education programs, and ensure that child care payment rates are sufficient to allow families to obtain care that fosters healthy child development. Greenberg would also make the federal dependent care tax credit refundable, with the credit set at 50 percent of covered child care costs for the lowest-income families and gradually phasing down to 20 percent as family income increases.

The combined subsidy and tax changes would lead to a better-coordinated system of child care subsidies that would assure substantial financial help to families below 200 percent of poverty, while tax-based help would ensure continued, albeit significantly reduced, assistance for families with higher incomes. Greenberg indicates that the tax credit expansions are estimated to cost about \$5 billion a year, and the subsidy and quality expansions would cost about \$18 billion a year.

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**A**ny national strategy to substantially reduce poverty should address child care for low-income working families. Affordable child care helps parents enter and sustain employment. Assistance with child care costs helps families increase their disposable incomes. Higher-quality care is linked with improved outcomes for children.

Although child care policy should address the needs of poor families, it should be designed to help a much larger group of Americans. Families across the income spectrum need stable, affordable, quality child care, and addressing their needs should not be viewed principally as a poverty or welfare issue. Child care simultaneously provides a work support for parents and an early education experience for children. Policymakers must be mindful of this dual role.

A national child care strategy should reflect four goals. Every parent who needs child care to get or keep work should be able to afford care that does not leave the children in unhealthy or dangerous environments. Every family should be able to place its children in settings that foster education and healthy development. Every family should be able to choose among child care providers. For parental choice to be meaningful, a set of good choices should be available to all families.

U.S. child care policy fails to meet these goals. Current policy has two principal components: tax-based assistance to middle- and higher-income families and block grant funding to states to assist lower-income families. The only federal entitlements to child care assistance are those provided through the tax code, the vast majority of which go to middle- and upper-income families. Only a small fraction of the low-income children who are eli-

gible for assistance through the federal block grant framework receive it. The nature and extent of that assistance varies widely from state to state and often fails to provide families access to the safe and developmentally appropriate care that is likely to be available to higher-income families. In many states, working families face waiting lists or can access care only through the welfare system. Low-income families who receive no assistance pay greater shares of their income than do higher-income parents but purchase less expensive care.

A better approach would restructure both tax and nontax policy as part of an overall national child care strategy. Congress should expand the Child and Dependent Care Tax Credit (CDCTC) and replace the existing block grant structure with a new federal-state matching structure to guarantee subsidy assistance to families with incomes below 200 percent of the official poverty line. A guarantee of child care assistance that does not depend on a family's state of residence, or on its welfare status, or on whether the funding for the year had been exhausted would promote work, ensure better care for children, and reduce poverty among working families.

Such a guarantee would improve families' ability to purchase care, but it would not, in itself, ensure the availability of good choices for all families. Simply increasing families' purchasing power will not ensure an adequate supply of care in lower-income communities, increase the educational qualifications and compensation of child care teachers, or promote the development of a coordinated early education system. Ensuring the availability of good choices to all parents will require a combination of demand and supply strategies. Thus, each state should be charged with developing and implement-

ing a strategic plan to improve the quality of care available to families and with coordinating child care with other programs and activities in its early education system. The federal government should provide dedicated funding to support these efforts.

### Low-Income Families, Work, and Child Care

Most of the nation's 13.5 million low-income families with children (those with household income below 200 percent of the poverty line) include a full-time, year-round worker.<sup>1</sup> In two-thirds of the nation's 5.7 million poor families with children (those with household income below the poverty line), a family member worked during the year; in one-third, a family member worked full-time, year-round.<sup>2</sup> The share of poor children in families with a year-round full-time worker grew substantially during the 1990s and despite some fall-off since 2000 remains well above the share during the early 1990s.<sup>3</sup>

Low-income working families are less likely to pay for child care than are higher-income families. When they do pay, they purchase less expensive care, but pay a much larger share of their income for it.<sup>4</sup> They are much less likely to use center-based care. Within each type of care, they pay considerably less than higher-income families do. On a per-hour basis, families with incomes above \$75,000 pay more than twice as much for care as families with incomes of \$10,000 or less and about 60 percent more than families with incomes between \$10,001 and \$30,000.<sup>5</sup>

Most low-income working families do not receive child care assistance. Federal law permits states to use their federal child care block grant funds to provide subsidy assistance to families with incomes below 85 percent of state median income. Almost all states

elect to set lower eligibility thresholds. The U.S. Department of Health and Human Services (HHS) has estimated that 28 percent of children eligible under state rules received subsidies in 2003.<sup>6</sup> HHS estimated that the 12 percent of children eligible under federal law received subsidy assistance in 1999, but thereafter it ceased reporting the share of federally eligible children who received child

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care assistance. The Center for Law and Social Policy estimated that 14 percent of federally eligible children—about one in seven—received child care assistance in 2000.<sup>7</sup>

The lack of child care assistance has adverse effects on families and lowers the likelihood that parents can sustain employment. Parents lacking child care assistance may go into debt, return to welfare, choose lower-quality and less stable child care, lose time from work, or be forced to choose between paying for child care and paying for rent or clothes.<sup>8</sup> Although researchers have not experimentally evaluated how providing child care assistance affects parental employment, a set of studies has found that low-income parents who receive help meeting child care costs are more likely to get and keep work. One research summary reported that “while employment and subsidy use are inherently in-

tertwined, each influencing the other, mothers who use subsidies appear more likely than other low-income mothers to: work at a job, work more hours, work standard schedules, sustain employment, [and] earn more.”<sup>9</sup>

Child care subsidies increase family disposable income by freeing up dollars that would otherwise go for child care. Providing a subsidy to offset a family’s child care costs does not in itself affect poverty under official measures, because noncash benefits are not treated as income and work expenses are not considered in determining the number of families in poverty. But Isabel Sawhill and Adam Thomas have estimated that if child care expenses were considered, an additional 1.9 million people, including more than 1 million children, would be considered poor.<sup>10</sup>

By lowering prices, subsidies can improve access to higher-quality care. A National Academies report found that “the quality of child care is likely to have important consequences for the development of children during the early years and middle childhood,” and that because of the amount of time children spend in child care, “child care provides an important opportunity to promote [children’s] healthy development and overall well-being.”<sup>11</sup> The report noted, “In comparison to their higher income peers, children of low-income families appear more likely to receive poor-quality child care and less likely to receive excellent quality child care, especially in the early years.”<sup>12</sup> Although higher cost does not ensure higher-quality care, it is often at least a prerequisite as many characteristics of higher-quality care, including better-trained teachers, smaller class sizes, and lower adult-child ratios, are more costly.<sup>13</sup> Low-income parents are more likely than higher-income parents to cite cost or affordability as a key factor in choosing child care arrangements.<sup>14</sup>

Higher-quality care is associated with better child outcomes on a range of key school-readiness dimensions, including “basic cognitive skills (language and math) and children’s behavioral skills in the classroom (cognitive/attention skills, sociability, problem behaviors, and peer relations), both of which are important factors in children’s ability to take advantage of the opportunities available in school.”<sup>15</sup> In their article in this volume, Greg Duncan, Jens Ludwig, and Katherine Magnuson note that new scientific research documents lifelong consequences from early brain development, as well as the importance of “earlier foundational skills” on which “complex cognitive capacities are built,” and cite evidence that high-quality intensive early education programs can improve children’s life chances. Most child care available today does not reach the quality of such intensive programs. Nevertheless, researchers at the Institute for Research on Poverty have concluded, “Children who attend higher-quality child care settings . . . display better cognitive, language, and social competencies on standardized tests.”<sup>16</sup> The Cost, Quality, and Outcomes in Child Care Centers Study, which began in 1993, was a longitudinal study of children in four states, and was designed to examine the influence of typical center-based child care on children’s development. The study population was limited to children in families that had elected center-based care. The study found that “the quality of children’s experiences in typical child care centers affects . . . their readiness for school,” with higher quality associated with improved math and language abilities, as well as social skills.<sup>17</sup>

Child care subsidies appear to promote access to center-based care. The National Academy of Sciences reported, “Both experimental and correlational studies have found

that center-type experiences are associated with higher scores on cognitive and language assessments, particularly for 3- and 4-year olds.”<sup>18</sup> Poor children particularly benefit from access to center care, but low-income children are less likely to be in center-based care than are their higher-income peers.<sup>19</sup> However, low-income children receiving child care subsidies are more likely than other low-income children to participate in center-based care arrangements.<sup>20</sup>

## Federal Child Care Policy and Funding: A Summary

Although a wide range of federal programs support early care and education in some manner, federal child care policy has two principal components: tax provisions and block grant funding to states.<sup>21</sup> The tax and block grant provisions differ in eligible population, type of care paid for, amount of assistance, delivery mechanism, and virtually every other policy dimension.

The major federal tax provisions relating to child care are the Child and Dependent Care Tax Credit and exclusions from income for benefits under dependent care assistance programs (DCAPs). The CDCTC is a tax credit for a portion of child and dependent care expenses for children under age thirteen or for dependents of any age who are mentally or physically unable to care for themselves. In 2006, the maximum credit was 35 percent of the first \$3,000 of qualifying expenses for one child or dependent or \$6,000 for two or more qualifying children or dependents. No family qualifies for the maximum credit because of the way the provision interacts with tax rates and other credits. As income rises, the credit gradually declines to cover 20 percent of qualifying expenses (at income levels of \$43,000 and higher). In 2005, a total of 6.3 million tax units claimed

the CDCTC with an average benefit of \$529. The CDCTC cost \$2.7 billion in 2006.<sup>22</sup>

The CDCTC is not refundable: a family’s credit cannot exceed the amount of its income tax liability. As a result, the credit provides almost no benefit to lower-income families. In 2005, families with incomes below \$20,000 received an estimated 0.6 percent of CDCTC benefits, while two-thirds of the benefits went to families with incomes exceeding \$50,000.<sup>23</sup> A single parent paying for child care for two children would not benefit from the credit unless her earnings reached about \$21,500.

Dependent care assistance programs allow an exclusion from taxable income for employer contributions toward child and dependent care benefits. The amount of the exclusion is limited to \$5,000 per family per year. Benefits may take several forms, but the most common is a salary reduction plan in which employees may set aside up to \$5,000 from annual pretax earnings for work-related child or dependent care expenses. The program cost an estimated \$810 million in lost federal revenue in 2006.<sup>24</sup>

The DCAP structure provides little or no benefit to lower-income families. Because it allows only an exclusion from taxable income, families with no tax liability receive no benefit from the provision. Moreover, because it reduces taxable income, it provides the most assistance to higher-income families with higher marginal tax rates.<sup>25</sup>

The largest source of federal child care subsidy funding for low-income families is the Child Care and Development Fund. CCDF involves a complex mix of federal and state funding.<sup>26</sup> A state can also transfer up to 30 percent of its Temporary Assistance for Needy

Families (TANF) funds to its CCDF program. It must spend most of its CCDF funds on subsidy assistance for families with incomes below 85 percent of state median income. A state must also spend at least 4 percent of its CCDF funds to promote the quality of child care. Quality expenditures can benefit all families, including those who do not qualify for CCDF subsidies. State CCDF programs must meet

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federal “parental choice” requirements. Under the federal requirements, families must have the option of receiving a voucher that can be used with an eligible provider, and state policies and requirements cannot expressly or effectively exclude any category of care or type of provider. Federal law also provides that state payment rates must be sufficient to ensure “equal access” to child care services comparable to those provided to families not eligible to receive child care assistance under CCDF or other programs. Most CCDF assistance (85 percent in 2005) is delivered through vouchers, with the remainder provided through contracts with providers (11 percent) or cash to families (4 percent).

The TANF block grant is the other principal federal source of low-income child care assistance. Under TANF, each state qualifies for an annual block grant. A state’s TANF grant may be used for cash assistance for low-income families and a wide array of other benefits and services. Total federal funding to

all states is \$16.8 billion a year. States must also spend a specific amount of state funds (known as the “maintenance of effort” requirement) to avoid being penalized. A state may “directly spend” an unlimited amount of TANF funds for child care for “needy” families—that is, families that meet the state’s definition of low-income. It may directly spend TANF funds whether or not it also transfers TANF funds to CCDF. When a state directly spends TANF funds for child care, it may, but need not, follow CCDF rules concerning eligibility, parental choice, and quality.

Federal child care subsidy funding grew rapidly after the enactment of the 1996 welfare law, but the rapid growth ended early in this decade. Total child care spending across CCDF, TANF, and related state funds reached \$12.3 billion in 2003 and fell to \$11.7 billion in 2005.<sup>27</sup> The Deficit Reduction Act of 2005 increased federal funding by \$200 million a year. Thus it will eventually not be possible to sustain current spending and service levels unless federal funding is increased or states spend new state funds.

The Department of Health and Human Services has estimated that 2.2 million children were assisted through CCDF, TANF, and a small amount of Social Services Block Grant funding in 2005, down from a peak of about 2.45 million children earlier in the decade. Those children represent a small share of the 15.7 million children who were eligible for CCDF assistance in federal fiscal year 2000 (the most recent year for which data are available).

## **Goals and the Limits of Current Policy**

Measuring the effectiveness of current child care policies and evaluating the strengths and

weaknesses of alternatives necessarily depend on one's goals. My own view, noted above, is that a sound national child care policy should have four goals: every parent who needs child care to enter or sustain employment should be able to afford care that does not risk leaving children in unhealthy or dangerous environments; all families should have the opportunity to have their children in settings that foster education and healthy development; parental choice should be respected; and good choices should be available to families.

The current U.S. policy structure falls far short of meeting these goals. Rather than ensuring assistance to all families who need child care to go to or sustain work, current policy offers aid to only a small minority of low-income families. Even those receiving subsidies may not be able to place their children in care that fosters education and healthy development.

The tax system provides a small entitlement to middle- and upper-income families, but no help to the poorest families. In theory, the CDCTC could provide up to \$2,100 to a family with child care costs of or exceeding \$6,000. In reality, the credit is small in relation to child care costs, wholly unavailable to poor families, and provides little help to other low-income families. For example, Leonard Burman and his colleagues have calculated that in 2005, because of the CDCTC's interaction with other credits and effective tax rates, a single-parent family with \$6,000 of countable expenses would qualify for no credit at an income of \$21,000; for a credit of \$810 at an income of \$25,000, and for a maximum credit of \$1,560 at \$33,000.<sup>28</sup>

Subsidy policy principally relies on providing block grants to states and letting them design their own policies to ration these funds. Overall, about one in seven children eligible

for CCDF assistance receives it. Coverage is probably most extensive for families receiving or leaving TANF assistance and least extensive for working families without any recent welfare connection.<sup>29</sup> Because available funding is not sufficient to serve all those eligible under federal law, states must make choices about how to allocate their funds. There are large variations across states concerning who is eligible for assistance and how much assistance eligible families receive.<sup>30</sup> For example, in 2006 a family of three was ineligible for assistance in fifteen states if it had income of \$25,000; in contrast, in eight states, a family of three with income exceeding \$35,000 could still be eligible for assistance. State eligibility thresholds ranged from 110 percent to 284 percent of the poverty line and from 34 percent to 89 percent of state median income. Within their state-established eligibility rules, some states serve all eligible families, while others have closed doors or have established waiting lists for categories of eligible families. In 2006, eighteen states reported waiting lists or frozen intake for nonwelfare families.

Provider payment rates are an important dimension of child care policy because they affect whether families will be able to choose from a broad range of providers in the local market and pay for higher-quality care. Some states set payment rates high enough to meet provider charges in much of the local market, but most do not. In 2006 nine states were basing their rates on relatively recent (2004–05) market rate surveys and paid providers at or above the 75th percentile for the local market. In contrast, ten states had not updated their maximum reimbursement rates for providers since 2001 or earlier.

Family copayment rules are another important dimension of policy. Copayment levels

affect the amount of family income available for all other costs of living after child care expenses. Setting a copayment level too high may affect whether families participate in the subsidy system. In 2006 a family of three with one child in care and income at the poverty level had no required copayment in four states but faced a copayment exceeding \$100 a month in eleven states. In 2005 the mean copayment for families with copayment obligations was 10 percent of family income or higher in six states and 3 percent of family income or lower in another six.<sup>31</sup>

Just as there is variation in child care policies across states, in some cases there is variation within states. Although most states have uniform state policies, three states leave key determinants of eligibility, such as income thresholds, to local discretion.

It is hard to see a rationale for a national policy that leaves virtually every major policy decision about the provision of child care assistance for low-income families to state discretion and results in such wide variation across states. One might argue that child care should be viewed as analogous to TANF—that is, a lump sum federal payment accompanied by a set of broad goals and state discretion to design policies to effectuate the goals. The analogy is flawed. The goal of TANF is not to ensure that an eligible population receives a needed service—to the contrary, federal law has encouraged states to reduce the number of families getting assistance. A key rationale for TANF's structure was the virtue of allowing for flexible funds and experimentation to help policymakers learn "what works." However, in child care, it is doubtful that the nation is learning anything valuable by allowing diverse approaches to eligibility and assistance. Instead, the result is an inequitable patch-

work in which families with the same needs are treated differently from state to state and within states, in which many low-income working families receive no help, and in which states are constantly forced to make difficult trade-offs between coverage, adequacy of payment rates, quality, and affordability.

Moreover, the existing structure does not ensure that families have access to care that promotes the health and development of children. Although the law provides that families receiving subsidy assistance should have "equal access" to the care available to higher-income families, it also states that families have no right to seek enforcement of this requirement. The Department of Health and Human Services has said that it will presume that a state's payment rates are sufficient to provide equal access if, based on a market rate survey, the state's payments to providers are set at a level high enough to give families access to 75 percent of local providers or slots. Most states, however, do not meet this standard, and the federal government has never taken action against a state for failure to do so.

## A Better Way

Policymakers should restructure current tax and subsidy policy to guarantee child care assistance to low-income families within a broader framework that helps all families attain access to care that promotes the health and development of children. To that end, I propose a combination of expanded tax credits, a direct subsidy system with a guaranteed eligible population instead of the current block grant structure, and a federal early care and education strategy fund to support state efforts to improve quality and develop coordinated early care and education systems in states.



These recommendations are grounded in the premise that there is no fundamental difference between the conditions facing families just below and just above the poverty line and that a very large group of families faces the challenge of affording high-quality child care. Accordingly, policies to help low-income families should be designed in ways that do not create arbitrary differences among families with similar needs. In advancing their commitment to end child poverty, policymakers in the United Kingdom have articulated a principle of “progressive universalism,” which has been defined as providing “support for all and more help for those who need it most, when they need it most.”<sup>32</sup> A framework of progressive universalism seems particularly appropriate in the context of child care, where the stresses and challenges faced by low-income families are also faced by a far broader group of middle- and higher-income families.

### Expand the Child and Dependent Care Tax Credit

The CDCTC should be made refundable, expanded to cover at least 50 percent of allowable expenditures for lower-income families, and indexed for inflation. Making the credit refundable would extend its benefits to the lowest-income families and ensure that all eligible families could receive the full amount for which they qualify. Making a greater share of a family’s child care spending subject to the credit would both defray expenses and help families purchase higher-cost care. Leonard Burman, Elaine Maag, and Jeffrey Rohaly estimate that a refundable credit would provide benefits to 1.5 million more households and would expand the share of benefits going to tax units with incomes below \$20,000 from less than 1 percent under current law to almost 26 percent.<sup>33</sup> They estimate that making the CDCTC re-

fundable, expanding the top credit rate from 35 percent to 50 percent, indexing it for inflation, and making a set of related technical changes would cost approximately \$25 billion over five years.

If the CDCTC were larger and refundable, could all subsidy assistance be provided through the tax system? The United King-

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dom has implemented a refundable child care credit that covers the first 80 percent of eligible expenses up to £300 (about \$580) a week for families with two or more children, with the credit gradually phasing down as income rises.<sup>34</sup> The idea of a unified tax-based approach is attractive, but it presents a range of difficulties. It is appealing because it would enable all families to receive help through a single, universal, nonstigmatized system, without waiting lists or closed intake and without extreme variations across states. Moreover, as the earned income tax credit (EITC) experience has shown, national and local outreach could promote participation and employer awareness.

But even a larger and refundable CDCTC could not fully substitute for direct assistance to families. First, the CDCTC expansion proposed here would not provide a large enough credit to substitute fully for direct subsidy as-

sistance. If the credit were raised to 50 percent and made refundable, the maximum credit would be \$1,500 for one child, \$3,000 for two or more children. By contrast, CCDF payments to providers (including family copayments), which are often criticized as inadequate, averaged \$4,236 in 2005, with large variations based on age of child, hours of care, type of care, and geographical location.<sup>35</sup> Child care costs in much of the nation far exceed CCDF levels.<sup>36</sup>

Even if the CDCTC were made larger, it could not be the principal vehicle for helping many lower-income families unless its structure allowed for advance payment. Current block grant-based subsidies are typically provided monthly, with provisions to address changes in family circumstances and emergency needs. By contrast, unless alternative provisions were designed, a family's CDCTC credit for a year would be determined at the end of the tax year and paid in the subsequent year in a lump sum. Families would need to pay the full costs of care on their own throughout the year and rely on partial reimbursement in the next year. Many families would likely opt for the least costly care, which could also be the least reliable and of lower quality.

Some form of advance payment structure would be essential in order for tax credits to be a practical means to provide child care assistance to low-income families. The EITC has an advance payment option but it is rarely used, for a number of reasons. For a start, many beneficiaries are unaware of the option. Other reasons include its complexity, the need for employer participation, fear of subsequent tax liability, and the preference of many families for the "forced savings" of the once-a-year lump sum. Families might be more likely to use an advance payment op-

tion for child care, because they would likely be more interested in getting ongoing help to meet costs throughout the year. Still, the EITC experience highlights the need to develop an advance payment structure that families would view as a practical option. Moreover, developing an advance payment structure for the CDCTC could be even more difficult than developing an effective one for the EITC, because the family's eligibility for the CDCTC would turn on both income and child care costs; it is unclear whether such a structure could be effectively implemented through employers or another delivery mechanism would be needed.

The difficulties that an advance payment structure presents should not preclude efforts to develop one. Indeed, as interest grows in expanding refundable tax credits, it will be important to develop a more viable advance payment structure for a range of tax credits.<sup>37</sup> Absent such a structure, tax credits could not effectively substitute for much of the existing child care subsidy system.

### **A Guarantee of Child Care Assistance to Low-Income Working Families**

Instead of the current block grant structure, federal law should provide for a guarantee of child care assistance to working families with incomes below 200 percent of poverty—about \$34,340 for a family of three and \$41,300 for a family of four in 2007. States would administer the guarantee through a federal-state matching structure. Families would be required to make a copayment toward the cost of the care, with the copayment increasing with income. States would pay the remainder of the cost of care. Payment rates would be adequate to ensure that low-income families had access to a range of choices, including high-quality, developmentally appropriate care. At the same time, each

state would have a responsibility to act to improve the quality of choices available to all families.

A case can be made for different choices regarding each detail of the guarantee. However the details are resolved, the starting point should be the need to shift from a block grant structure with no articulable national policy to a national policy that ensures child care assistance with high-quality choices for all eligible low-income families.

A threshold question is whether having a guarantee, or entitlement, is good policy. The answer should turn on the nature and terms of the benefit. On the one hand, for example, few people question the appropriateness of entitlements to Social Security benefits, the earned income tax credit, or K–12 public education. On the other hand, a principal focus of the 1996 welfare reform law was to end the entitlement to cash assistance for low-income families. The objection to the cash assistance entitlement was that it encouraged behavior that society wished to discourage. Here, the opposite is the case. The nation should have an interest in ensuring that the need for child care is never a barrier to getting a job and that working families can purchase good care without spending a large share of their income to do so. Moreover, the nation already has entitlements to child care assistance, albeit small ones, for higher-income families; this proposal would extend entitlements to all families.

A guarantee of child care assistance for eligible families has important advantages over a block grant structure. First, it would provide a clear, simple, powerful message: if you work, you will have help paying for child care. Second, it would ensure that no working family would ever be compelled to leave a child

alone or in an unsafe environment simply because of financial necessity. Third, it would ensure that all families had the opportunity to have their children in enriching environments while parents were working. Fourth, it would ensure that families in identical situations would not be treated differently simply because of the state in which they lived or the time of year in which they applied for assistance. Fifth, it could help bring the nation closer to achieving two other broad goals—that no family should ever be worse off by going to or remaining in work and that working families should have enough income to support a decent standard of living. The existing block grant structure does not ensure that any of these goals are met.

One argument against a guarantee is that in a world of limited resources, difficult choices must be made about allocating scarce dollars, and states and localities are better able than the federal government to make those judgments. Moreover, with broad discretion in use of funds, states can test a range of approaches to the parameters of their subsidy systems in order to determine the most effective ways to use limited resources. The reality is that it would be far better to have a national debate about those choices and to provide sufficient funding to serve the population defined as needing assistance, rather than to provide states with a lump sum of money and direct them to develop rationing rules.

A related argument is that entitlements of any sort put government spending on “autopilot” because there is a risk that spending will simply increase without Congress’s ever considering whether the growth in spending is desirable. Here, the two principal reasons why spending might grow more than anticipated would be if more parents entered employment or more eligible families sought

and benefited from assistance. Neither should be a troubling result.

Who should be guaranteed assistance? First, it is important to ensure that help is available for families receiving TANF, but it would be a serious error to limit guarantees to families receiving or leaving TANF. It is contrary to basic principles of equity to create a structure in which families can receive child care assistance only by entering the welfare system. Second, although the lowest-income families need the most help, assistance should be phased out gradually as income increases. Parents should not need to fear that working additional hours or getting a raise will make their families worse off because of loss of child care assistance. Moreover, under a subsidy structure providing for a gradual phase-out of assistance combined with an expanded CDCTC, families losing direct assistance would still qualify for refundable tax credits of up to \$1,500 to \$3,000.

This proposal would guarantee child care assistance to all working families with incomes below 200 percent of poverty and to families engaged in work activities while receiving TANF assistance. As under current law, states could use funds to provide child care assistance to other low-income families involved in education or training, but the federal guarantee would not extend to these families. An eligibility threshold of 200 percent of the poverty line is consistent with the growing body of research that recognizes this as a reasonable measure of low-income status and with evidence that families with incomes below 200 percent of poverty pay a far greater share of their income for substantially less costly care than higher-income families do.

A 200 percent standard is lower than maximum current CCDF eligibility. In 2006

(under HHS income guidelines) 200 percent of poverty for a family of four was \$40,000, while 85 percent of the national median income for four was \$56,966. As a practical matter, only three states set their CCDF income levels that high, but this proposal posits that it would be better to ensure assistance to the eligible population below 200 percent of poverty than to have a higher eligibility threshold while states are unable to serve large numbers of qualifying families. Thus, federal matching funds should be available for states that elect to provide assistance to families with incomes up to 85 percent of the state median, but the federal guarantee should be limited to families with income below 200 percent of poverty.

Under the proposal, all working families receiving subsidy assistance would be required to make a copayment toward the cost of care, subject to limited state waiver authority. Current HHS guidelines recommend that copayments not exceed 10 percent of income. However, higher-income families spend only 6.5 percent of their incomes on care, and even 6.5 percent seems excessive for poor families. Under current state policies, most states waive copayments for at least some families in poverty, ten states waive copayments for all families below poverty, and only four states require copayments for all families in poverty.<sup>38</sup> Under this proposal, families would face a copayment of 3 percent of their income below the poverty line and 10 percent of any income that exceeds the poverty line. With such a structure, families approaching 200 percent of poverty would face an average copayment requirement of about 6.5 percent of income, the same share as higher-income families pay for care.

The proposal would maintain the role of states in administering child care subsidies,

for several important reasons. First, maintaining the state role would allow for timely ongoing assistance and adjustments for changing circumstances during the year. Second, states are currently responsible for subsidy administration and quality initiatives, and subsidy policy can function as an important vehicle for promoting quality. For example, states can act to improve quality through provider registration, training, and support; by connecting families with resource and referral agencies; by implementing quality-rating systems; and by contracting for types of care. Moreover, as states develop pre-kindergarten and early education models, they can use their subsidy systems in efforts to develop full-day, year-round services.

Federal and state governments would continue to share in the cost of subsidized care under this structure. Under current law, federal funds represent, on average, 57 percent of block grant-related funding and state matching rates vary, based on state per capita income. It would be reasonable to retain a federal-state cost-sharing relationship, though an argument can be made for increasing the federal share. Whatever rate is established, each state's match rate could apply to all spending, substituting for the complex rules that apply under current law.

Implementing a guarantee would require decisions about how to establish the amount of subsidy assistance for families. Current CCDF regulations are based on the premise that a payment rate sufficient to pay for 75 percent of available care in a community is adequate to ensure that families receiving assistance get "equal access" to care comparable to that received by families with incomes above the subsidy level. As noted, most states do not set payment rates that high. It is not clear how effective the 75th percentile stan-

dard is as a benchmark for equal access, as there appears to be virtually no research comparing the characteristics of care above and below the 75th percentile. The idea of "meeting the market" as the way to set payments for child care is in some ways flawed, because current care often falls short of desired quality standards, and providers wanting to upgrade facilities or raise teacher edu-

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*It is contrary to basic principles of equity to create a structure in which families can receive child care assistance only by entering the welfare system.*

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cation or compensation are constrained by what parents can pay. Moreover, basing payments on characteristics of local markets may mean paying lower rates in poorer communities where families are least able to afford more expensive care.<sup>39</sup>

One possible approach would draw on an important variant of the 75th percentile framework. In recent years, many states have developed quality-ratings systems that categorize child care providers according to specific quality benchmarks; higher-rated providers qualify to receive higher state payments.<sup>40</sup> Quality-ratings systems have been a significant step forward in state efforts to promote child care quality. They recognize the importance of parental choice, while providing valuable information to providers and families about markers of higher-quality care and creating incentives for providers to raise the quality of care. In establishing a child

care guarantee, policymakers should consider requiring that all states use quality-ratings systems and pay at least the 75th percentile within each band of the state's rating system. For example, a state with a four-star rating system would need to have payments for four-star care that were high enough to pay for at least 75 percent of four-star care. This approach would ensure that families could purchase a significant share of care within the highest-rated band, while at the same time making clear that states need not pay for the most expensive care in the lowest-rated bands.

This approach is not the only possible way to set subsidy rates, and others should be considered. The key principle, however, is that to ensure that families have access to high-quality care it is not sufficient to simply meet current market costs, which are constrained by families' inability to pay, particularly in low-income areas. Rather, subsidy payment rules should be designed so that payments are high enough to ensure that participating families have effective access to high-quality care among their choices.

### **An Early Care and Education Strategy Fund**

Although expanding families' capacity to purchase care would likely spur important market responses, a comprehensive strategy should address supply as well as demand. Federal policy should encourage and support state efforts to raise quality and to foster the coordination of early care and education. As noted, under current law states must spend at least 4 percent of their CCDF funds on quality initiatives, including those directly seeking to raise quality, as well as initiatives on health and safety monitoring, consumer education, and resource and referral activities. In some communities, simply expanding

demand may lead to increases in supply. In others, states will likely need to provide assistance and support to develop supply. Current compensation levels for child care teachers are far too low to permit providers to recruit and retain highly educated teachers. Raising payment rates can help but is not likely to solve the problem by itself. And as states expand prekindergarten efforts, it will be essential not only to develop mechanisms to help child care programs meet higher standards and become prekindergarten providers but also to promote coordination between child care and prekindergarten programs to provide year-round, full-day opportunities for families. Therefore, along with a guarantee of care, federal law should require each state to develop and implement a strategic plan to improve the quality of care for all families and to address cross-program coordination. Federal funding should support these efforts.

Thus, instead of the current requirement that states spend at least 4 percent of federal funds for quality, I propose creating a federal Early Care and Education Strategy Fund, established initially at \$2 billion a year—about twice current state spending on quality.<sup>41</sup> States could use these funds for the same range of activities for which they spend their quality dollars under the existing block grant structure.<sup>42</sup> Funds would also be available for each state to develop and implement a strategic plan to improve the quality of care available to all families in the state and for state efforts to coordinate child care, Head Start, prekindergarten, and other programs into a comprehensive early care and education system for children from birth to age five.

### **Costs and Effects**

As described earlier, the cost of expanding the Child and Dependent Care Tax Credit and making it refundable is in the range of

\$25 billion over five years. Overall, I estimate that annual new costs for the guarantee and the Early Care and Education Strategy Fund are in the range of \$18 billion. However, costs of the guarantee are very sensitive to a number of key assumptions, including average costs of care, numbers of potentially eligible families, and take-up rates.

I assume in this article that assistance under the guarantee would cost an average of \$5,000 per child before family copayments. The cost is averaged between younger and older children, across various types of care, and across states. In 2005, average payments to providers under CCDF were \$4,236 per child, including CCDF payments and family copayments. Given the limited data and range of potential costs, further development of the proposal would benefit from exploration among states, researchers, and others of the likely unit costs of the proposal.

What would the guarantee cost? If it were extended to all working families with incomes below 200 percent of poverty and to welfare families engaged in work activities, subject to the proposed copayment structure, with an average cost of \$5,000 per child and an estimated 50 percent take-up rate, and with a \$2 billion Early Care and Education Strategy Fund, I estimate annual costs in current dollars of about \$30 billion a year. This would mean net new costs of about \$18 billion above current costs of about \$12 billion a year. That expenditure would provide subsidy assistance to about 3 million low-income working families; it would also provide assistance to families in TANF work activities and maintain services to other groups eligible under current law, such as other families in education and training, protective services cases, and older children who were incapacitated or under court supervision. Under cur-

rent law, the federal government pays an average of 57 percent of CCDF costs; if the federal share were to remain the same, new federal costs would be in the range of \$11 billion a year.

Different assumptions or parameters lead to different cost estimates. For example, assuming an average cost of \$7,000 per child would

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*Federal policy should encourage and support state efforts to raise quality and to foster the coordination of early care and education.*

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raise costs by about \$10.6 billion. Imposing no copay against income below the poverty line would raise costs by about \$1.4 billion. If the take-up rate were 5 percentage points higher or lower than the 50 percent estimate, costs could increase or decrease by nearly \$2 billion.

Costs would also depend on whether the services and benefits available to families and children improve in other ways. Such improvements would present their own costs, but would likely reduce the costs of a child care guarantee and expansion of the CDCTC. For example, virtually every other developed nation provides paid parental leave for parents with very young children.<sup>43</sup> A policy of paid parental leave in the United States would allow parents to stay home during the early months of a child's life and take full advantage of their rights under the Family and Medical Leave Act; it would also reduce the "residual" costs of a child care guarantee and of the CDCTC. Similarly, recent

research has found that children in the Early Head Start Program performed better on measures of cognition, language, and social-emotional functioning than their peers who did not participate in the program.<sup>44</sup> Making Early Head Start available to more children would likely reduce child care costs. In recent years, states have expanded prekindergarten programs for three- and four-year-olds; expanding such programs, particularly if full day, would lower residual child care costs for affected children.<sup>45</sup> Expanding after-school programs such as those funded through the 21st Century Community Learning Centers framework would both increase family options and reduce the need for child care outside school hours.<sup>46</sup>

As noted, increasing access to child care and helping families afford higher-quality care would have a range of significant benefits for children. It would also raise employment and reduce poverty. Analysts at the Urban Institute have modeled the employment and poverty-reducing effects of a proposal similar to this one, in connection with estimating the effects of a set of recommendations by the Center for American Progress Task Force on Poverty.<sup>47</sup> In doing so, they used a modified definition of poverty, drawn from the recommendations of the National Academy of Sciences, that subtracted child care expenses from income in measuring poverty. The Urban Institute, after reviewing the research on employment effects of child care subsidies, drew on that research to estimate that implementing the proposal would raise employment rates by 8 percentage points for unmarried parents and 3 percentage points for married parents with employed spouses, resulting in an additional 1.2 million married and 0.7 million unmarried workers. With those employment effects, the analysts estimated that implementing the proposal would

reduce the number of people in poverty by 2.7 million—about an 8 percent decline. The number of children in poverty would fall by 1.5 million—about a 14.5 percent decline. The poverty gap—that is, the total dollar amount by which those in poverty fall below the poverty line—would fall by \$6.5 billion (in 2003 dollars) at a net cost to government of about \$17.1 billion (in 2003 dollars). Thus, in addition to reducing poverty, the proposal would provide substantial benefits to other low-income families with incomes above the poverty line.

### Criticisms and Responses

This proposal may face two very different sets of critics. One set will likely assert that it is not needed, is not the best use of scarce resources, and is too expensive. The other set will contend that it does not do enough: it leaves too many families with only modest tax-based assistance, does not ensure that high-quality care will be available to all, and still leaves significant gaps in coordination between tax and subsidy policy.

The first set of critics may contend that there is no need to expand assistance because working parents are “getting by” using their current paid or unpaid arrangements, so that much of any expansion would simply provide a “windfall” by defraying existing expenses or encourage the “monetizing” of informal relationships. Expanding assistance, however, has multiple goals: promoting employment, offsetting expenses, and supporting healthy child development. A substantial body of research finds that increasing subsidy assistance would increase the likelihood and stability of employment.<sup>48</sup> As noted, the Urban Institute has estimated that a similar proposal would result in 1.9 million additional working parents and a 14.5 percent reduction in child poverty. Expanding disposable income for



low-income working families appears clearly desirable. Policymakers could avoid the risk of monetizing informal relationships by making such relationships ineligible for compensation, but doing so would seem a significant intrusion into parental choice. Although it is difficult to estimate reliably the extent to which enhanced capacity to purchase care would translate into higher-quality care, there is reason to believe the proposal would further that goal, too.

A second, related, objection may be that given the importance of promoting high-quality early education and school readiness, the next available dollars should be used for prekindergarten or intensive high-quality early education programs rather than for child care. However, child care and early education should not be viewed as separate and unrelated entities. Child care for young children is necessarily early education, and public policy can improve its effectiveness as such; in light of the importance of promoting and supporting parental work, it is essential to ensure that child care settings can also be high-quality early education settings. State expansions of prekindergarten programs do not obviate the need for child care. Prekindergarten programs are not typically structured as full-day, year-round, and the most common state model for prekindergarten includes child care centers and other community-based settings as delivery sites.<sup>49</sup> As prekindergarten programs expand, the issue is not whether they substitute for child care but rather how the two can be coordinated and integrated. Given that the most ambitious prekindergarten proposals rarely involve more than two years of classroom setting or full-year, full-day programming, policymakers necessarily must address how to ensure that safe, healthy, developmentally appropriate settings are available and afford-

able to families during the years and times when children are not in prekindergarten settings.

The third related objection may be that the proposed costs are too high, given other pressing national priorities. As noted, the benefits of the proposal would be substantial, and encouraging greater and more stable

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*Although it is difficult to estimate reliably the extent to which enhanced capacity to purchase care would translate into higher-quality care, there is reason to believe the proposal would further that goal, too.*

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labor force participation while advancing school readiness and child well-being could yield important long-run savings. It is difficult to see how to bring down costs substantially other than by doing less—for example, assisting fewer families or reducing spending per family. Another way to reduce costs would be to limit implementation to a demonstration project in a set of states or to restructure the proposal as a state option. For example, states that agreed to meet its terms could qualify for open-ended federal matching funds for implementation. A demonstration program could provide lessons about costs, participation, and behavioral effects, but would delay implementation of national policy, perhaps by five to ten years. Providing for a state option could let the political process work in each state and allow for grad-

ual national implementation but could result in even greater inequities than there are in the current structure.

Finally, just as the proposal may be criticized for doing too much, it may also be criticized for not doing enough. If the guarantee were limited to families with incomes below 200 percent of poverty, families with higher incomes would have only modest tax-based assistance despite their high child care costs. The proposed expansion of the CDCTC will still pay only a small fraction of the costs that many families face. The guarantee framework and expanded funding for the Early Care and Education Strategy Fund may be far short of what is needed for supply-building and quality-improvement activities. Phasing out direct subsidy assistance at 200 percent of poverty still results in a significant loss of assistance for many families as their income reaches and exceeds the cutoff; providing a refundable tax credit reduces but does not eliminate the severity of that loss.

I agree that the proposal falls short of fully addressing many concerns about the affordability, accessibility, and quality of care for low- and moderate-income families. It seeks to strike a set of balances, but if additional funding were available it would be possible to do more to address these concerns. As to coordinating subsidy and tax policy, there is an inherent tension because subsidy assistance

is based on a percentage of family income and tax credits are based on a percentage of costs. The gulf between the two will be greatest for families that receive the greatest benefit from subsidies—that is, those in high-cost areas, with younger children, or with several children. This proposal does not solve the problem, though it does move toward a better-coordinated national framework.<sup>50</sup>

### **Conclusion: Toward a National Child Care Strategy**

In the period leading up to enactment of the Deficit Reduction Act of 2005, congressional discussion of child care policy was largely limited to disputes about whether the “right” level for additional block grant funding was zero, \$1 billion, or another figure. Much of the discussion was confined to the estimated costs of meeting work participation requirements for TANF recipients. The national debate about next steps for child care policy should be broader, beginning with a shared vision of good child care choices for all families. To turn that vision into reality, it is important to focus on how to ensure that all families have access to child care assistance with good choices of care available as the nation moves toward developing a more comprehensive framework of early care and education. A low-income guarantee, a federal Early Care and Education Strategy Fund, and expanded tax assistance for all families could bring us closer to that goal.

## Notes

1. In this article, “low-income” refers to having income below 200 percent of the official poverty line, and “poor” refers to having income below 100 percent of the poverty line. In 2005, among the 13.5 million families with related children under age eighteen and incomes below 200 percent of poverty, 84 percent reported some work during the year, and 56 percent had at least one full-time year-round worker. Analysis drawn from U.S. Bureau of the Census, Current Population Survey, *Families with Related Children under 18 by Number of Working Family Members and Family Structure*, 2005, Annual Demographic Survey, Annual Social and Economic Supplement POV07 (2006), [pubdb3.census.gov/macro/032006/pov/new07\\_200\\_01.htm](http://pubdb3.census.gov/macro/032006/pov/new07_200_01.htm) (August 31, 2006).
2. In 2005, among the 5.7 million poor families with related children under eighteen, 68 percent reported some work during the year and 30 percent had at least one full-time year-round worker. Analysis drawn from Bureau of the Census, Current Population Survey (see note 1).
3. The share of poor children with a full-time, year-round working parent grew from 19.9 percent in 1992 to 35.4 percent in 2000; the share was 32.1 percent in 2005. Velma W. Burke, Thomas Gabe, and Gene Falk, *Children in Poverty: Profile, Trends and Issues, Report for Congress RL32682* (Congressional Research Service, updated January 16, 2007).
4. In 2002, according to the Survey of Income and Program Participation (SIPP), among working families with employed mothers and children under age fifteen, 28 percent of low-income families paid for care, compared with 39 percent of families that were not low-income. Among those paying for care, low-income families paid an average of \$68 a week, representing 15 percent of their incomes; in contrast, higher-income families paid \$104, representing only 6.5 percent of their incomes. U.S. Bureau of the Census, *Who’s Minding the Kids? Child Care Arrangements: Winter 2002* (October 2005); and detailed tables available at [www.census.gov/population/www/socdemo/child/pp1-177.html](http://www.census.gov/population/www/socdemo/child/pp1-177.html) (August 3, 2006). For concerns and cautions about the use of SIPP child care data, see Douglas J. Besharov, Jeffrey S. Morrow, and Anne Fengyan Shi, “Child Care Data in the Survey of Income and Program Participation (SIPP): Inaccuracies and Corrections” (Welfare Reform Academy, University of Maryland, 2006). Data from the 1999 National Survey of America’s Families (NSAF) show higher percentages of families paying for care than those from SIPP; like SIPP, they show that lower-income families pay less, but a higher share of their incomes, for care. According to 1999 NSAF data, 42 percent of low-income families paid for child care, compared with 51 percent of higher-income families. Low-income families paid an average of \$53.54 weekly, representing 14 percent of their incomes; in contrast, higher-income families paid \$76.38, representing only 7 percent of their incomes. Among the 38 percent of poor families with child care expenses, the average expense was \$52.39 a week, an average of 18 percent of parental earnings. See Linda Giannerelli, Sarah Adelman, and Stephanie Schmidt, *Getting Help with Child Care Expenses* (Washington: Urban Institute, 2003).
5. See National Center for Education Statistics, *Child Care and Early Education Arrangements of Infants, Toddlers, and Preschoolers: 2001* (U.S. Department of Education, November 2005), table 6-B.
6. Assistant Secretary for Planning and Evaluation, Office of Human Services, “Child Care Eligibility and Enrollment Estimates for Fiscal Year 2003,” Policy Issue Brief (April 2005).
7. U.S. Department of Health and Human Services News, *New Statistics Show Only Small Percentage of Families Receive Child Care Help* (December 6, 2000); Jennifer Mezey, Mark Greenberg, and Rachel

- Schumacher, *The Vast Majority of Federally-Eligible Children Did Not Receive Child Care Assistance in FY 2000* (Washington: Center for Law and Social Policy, 2002).
8. See studies summarized in Hannah Matthews, *Child Care Assistance Helps Families Work: A Review of the Effects of Subsidy Receipt on Employment* (Washington: Center for Law and Social Policy, 2006).
  9. Stephanie A. Schaefer, J. Lee Kreader, and Ann M. Collins, *Parent Employment and the Use of Child Care Subsidies: Literature Review* (Child Care and Early Education Research Connections, April 2006). See also David Blau, "Child Care Subsidy Programs," in *Means-Tested Transfer Programs in the United States*, edited by Robert A. Moffitt (University of Chicago Press and National Bureau of Economic Research, 2003), pp. 443–516; Rachel Connelly and Jean Kimmel, *The Effect of Child Care Costs on the Labor Force Participation and Welfare Reciprocity of Single Mothers: Implications for Welfare Reform* (Kalamazoo, Mich.: W. E. Upjohn Institute, rev. March 2001); Matthews, *Child Care Assistance* (see note 8).
  10. Isabel Sawhill and Adam Thomas, *A Hand Up for the Bottom Third: Toward a New Agenda for Low-Income Working Families* (Brookings, May 2001).
  11. National Academies, *Working Families and Growing Kids* (Washington, 2003), p. 135, and p. 64, citing Joan Lombardi, *Time to Care: Redesigning Child Care to Promote Education, Support Families, and Build Communities* (Temple University, 2003).
  12. National Academies, *Working Families and Growing Kids* (see note 11), p. 4.
  13. For an overview of determinants of child care quality, see J. Lee Kreader, Daniel Ferguson, and Sharmila Lawrence, *Infant and Toddler Child Care Quality*, Research-to-Policy Connections 2 (New York: National Center for Children in Poverty, August 2005). For more on why higher-quality care tends to be more expensive and out of the reach of lower-income families, see Linda Giannerelli and James Barsimantov, *Child Care Expenses of America's Families* (Washington: Urban Institute, 2000); Karen Schulman and Gina Adams, *The High Cost of Child Care Puts Quality Care out of Reach for Many Families* (Washington: Children's Defense Fund, 1998); and National Academies, *Working Families and Growing Kids* (see note 11), pp. 56–63. Accredited child care facilities often "can cost as much as \$5,000 more a year than non-accredited care"; National Association of Child Care Resource and Referral Agencies (NACCRRA), *Breaking the Piggy Bank: Parents and the High Price of Child Care* (Arlington, Va., 2006).
  14. In one set of recent focus groups, more than two-thirds of parents mentioned cost as a primary concern when choosing child care arrangements; NACCRRA, *Breaking the Piggy Bank* (see note 13).
  15. Ellen S. Peisner-Feinberg and others, *The Children of the Cost, Quality, and Outcomes Study Go to School: Executive Summary* (University of North Carolina at Chapel Hill, June 1999). For an overview of research on the effects of quality early child care on children, including upon entering school, see National Academies, *Working Families and Growing Kids* (see note 11), pp. 105–22.
  16. Deborah Lowe Vandell and Barbara Wolfe, *Child Care Quality: Does It Matter and Does It Need to Be Improved?* (University of Wisconsin, Institute for Research on Poverty, November 2000).
  17. Peisner-Feinberg and others, *The Children of the Cost, Quality, and Outcomes Study Go to School* (see note 15).
  18. National Academies, *Working Families and Growing Kids* (see note 11), p. 134.

19. On the benefits to poor children, see E. S. Peisner-Feinberg and others, *The Children of the Cost, Quality, and Outcomes Study Go to School* (see note 15). A British study of preschool attendance found that “for the most disadvantaged groups . . . the experience of longer duration and higher quality is likely to be particularly important in reducing the social class attainment gap, although it can be seen that all SES groups show significant benefit from attending pre-school in relation to attainment in Reading and Mathematics.” Kathy Sylva and others, *Social Class Differences in the Effects of Pre-School on Children’s Academic Performance at Age 7* (University of London, November 2005).
20. Jeffrey Capizzano and Gina Adams, *Children in Low-Income Families Are Less Likely to Be in Center-Based Child Care* (Washington: Urban Institute, November 2003). Also, lower-income employed mothers with children from birth to age five are less likely to use child care centers than higher-income mothers. National Academies, *Working Families and Growing Kids* (see note 11), p. 44. Fifty eight percent of children receiving Child Care and Development Fund subsidies participate in center-based care arrangements. U.S. Department of Health and Human Services, “FFY 2005 CCDF Data Tables (Preliminary Estimates),” [www.acf.hhs.gov/programs/ccb/data/ccdf\\_data/05acf800/table3.htm](http://www.acf.hhs.gov/programs/ccb/data/ccdf_data/05acf800/table3.htm). A study comparing children receiving subsidies for child care with those on waiting lists found that the former were more likely to be in a formal licensed child care center. It also found that subsidies for low-income mothers seem to result in “more stable care, ease of finding care, and satisfaction with care [which] suggest that subsidy mothers were less psychologically stressed about child care issues compared to mothers on waiting lists.” Fred Brooks, “Impacts of Child Care Subsidies on Family and Child Well-Being,” *Early Childhood Research Quarterly* 17 (2002): 498–511.
21. The Government Accountability Office (GAO) has reported that “sixty-nine federal programs provided or supported education and care for children under age 5 in fiscal year 1999.” However, the GAO found that of \$9 billion in nontax spending identified in its report, \$8 billion came from three sources: the Child Care and Development Block Grant, the Temporary Assistance for Needy Families Block Grant, and the Head Start Program. U.S. Government Accountability Office, *Early Education and Care: Overlap Indicates Need to Assess Crosscutting Programs*, GAO/HEHS-00-78 (April 2000); for an update finding that the number of programs remained at sixty-nine in 2005, see U.S. Government Accountability Office, *Update on Prekindergarten Care and Education Programs*, GAO-05-678R (June 2, 2005). Although the present article emphasizes the importance of coordinating Head Start and child care, it does not treat Head Start as a federal child care program, since the principal purpose of Head Start is to promote the school readiness of low-income children without regard to their parents’ work status or need for child care.
22. Office of Management and Budget, *Analytical Perspectives, Budget of the United States of America, Fiscal Year 2007* (2006).
23. Leonard Burman, Elaine Maag, and Jeffrey Rohaly, *Tax Subsidies to Help Low-Income Families Pay for Child Care* (Washington: Urban-Brookings Tax Policy Center, June 2005).
24. Office of Management and Budget, *Analytical Perspectives* (see note 22).
25. Another small (\$10 million) provision lets employers claim a tax credit of up to 25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child care resource and referral services, up to \$150,000 a year.
26. Mark Greenberg, Joan Lombardi, and Rachel Schumacher, *The Child Care and Development Fund: An Overview* (Washington: Center for Law and Social Policy, June 2000).

27. Annual federal CCDF funding (not counting transferred TANF funds) grew from \$2.2 billion in 1996 to \$4.8 billion in 2002 but then remained flat until it was increased to \$5 billion in the Deficit Reduction Act of 2005. Combined TANF transfers and direct spending peaked at \$4 billion in 2000 and declined to \$3.2 billion in 2005. Hannah Matthews and Danielle Ewen, *Child Care Assistance in 2004: States Have Fewer Funds for Child Care* (Washington: Center for Law and Social Policy, 2005); analysis of FY 2005 CCDF and TANF use of funds by Center for Law and Social Policy.
28. Burman, Maag, and Rohaly, *Tax Subsidies to Help Low-Income Families* (see note 23).
29. U.S. Government Accountability Office, *Child Care: Recent State Policy Changes Affecting the Availability of Assistance for Low-Income Families*, GAO 03-588 (May 2003); U.S. Government Accountability Office, *Child Care: Additional Information Is Needed on Working Families Receiving Subsidies*, GAO-05-667 (June 2005).
30. Except as noted, data on cross-state policy variation are drawn from Karen Schulman and Helen Blank, *State Child Care Assistance Policies 2006: Gaps Remain, with New Challenges Ahead* (Washington: National Women's Law Center, September 2006).
31. Child Care Bureau, "FY 2005 CCDF Data Tables, Preliminary Estimates," table 17, [www.acf.hhs.gov/programs/ccb/data/ccdf\\_data/05acf800/table17.htm](http://www.acf.hhs.gov/programs/ccb/data/ccdf_data/05acf800/table17.htm).
32. H. M. Treasury, *Pre-Budget Report 2003: The Strength to Take the Long-Term Decisions for Britain: Seizing the Opportunities of the Global Recovery* (London, 2003).
33. Burman, Maag, and Rohaly, *Tax Subsidies to Help Low-Income Families* (see note 23).
34. See H. M. Treasury, *Choice for Parents, the Best Start for Children: A Ten Year Strategy for Childcare* (London, December 2004).
35. Child Care Bureau, "FY 2005 CCDF Data Tables, Preliminary Estimates," table 15, [www.acf.hhs.gov/programs/ccb/data/ccdf\\_data/05acf800/table15.htm](http://www.acf.hhs.gov/programs/ccb/data/ccdf_data/05acf800/table15.htm).
36. NACCRRA, *Breaking the Piggy Bank* (see note 13).
37. See, for example, Lily L. Batchelder, Fred L. Goldberg Jr., and Peter Orszag, *Reforming Tax Incentives into Uniform Refundable Tax Credits* (Brookings, August 2006).
38. See National Child Care Information Center, "Child Care and Development Fund Report of State Plans FY 2006–2007," sec. 3.5.3, [www.nccic.org/pubs/stateplan2006-07/part3.pdf](http://www.nccic.org/pubs/stateplan2006-07/part3.pdf).
39. See discussion in Gina Adams and Monica Rohacek, "More than a Work Support? Issues around Integrating Child Development Goals into the Child Care Subsidy System," *Early Childhood Research Quarterly* 17 (2002): 418–40.
40. Child Care Bureau, *Quality Rating Systems and the Impact on Quality in Early Care and Education Settings* (U.S. Department of Health and Human Services, 2005); National Child Care Information Center, *Quality Rating Systems and the Impact on Quality in Early Care and Education Settings* (Fairfax, Va., November 2006).
41. In 2005 states spent a reported \$920 million on a range of program quality activities. See U.S. Department of Health and Human Services, "2005 CCDF State Expenditure Data," [www.acf.hhs.gov/programs/ccb/data/expenditures/05acf696/fy05\\_overview\\_allyears.htm](http://www.acf.hhs.gov/programs/ccb/data/expenditures/05acf696/fy05_overview_allyears.htm).

42. Under current law, in addition to providing subsidies, states can use child care block grant dollars for activities to provide consumer education, increase parental choice, and improve the quality and availability of child care. Activities can include resource and referral efforts, helping providers meet health and safety and other standards, improving the monitoring of compliance with and enforcement of standards, providing training and technical assistance to providers, and improving salaries and other compensation for child care staff. *Code of Federal Regulations*, vol. 45, sec. 98.51. There is an additional set of earmarked quality-related funds.
43. Janet Gornick and Marcia Meyers, *Families That Work: Policies for Reconciling Parenthood and Employment* (New York: Russell Sage Foundation, 2003).
44. Administration for Children and Families, *Preliminary Findings from the Early Head Start Prekindergarten Follow-Up* (U.S. Department of Health and Human Services, April 2006).
45. W. Steve Barnett and others, *The State of Preschool: 2005 State Preschool Yearbook* (National Institute for Early Education Research, 2005).
46. Afterschool Alliance, *21st Century Community Learning Centers: A Foundation for Progress* (2006).
47. The recommendation is described in Center for American Progress Task Force on Poverty, *From Poverty to Prosperity: A National Strategy to Cut Poverty in Half* (Washington, 2007). The details of the Urban Institute's modeling are presented in Linda Giannerelli, Laura Wheaton, and Joyce Morton, *Estimating the Anti-Poverty Effects of Changes in Taxes and Benefits with TRIM3* (Washington: Urban Institute, 2007).
48. The research finds positive effects of child care subsidies on employment, but does not provide a consistent picture of the size of the effect. See, for example, Erdal Tekin, "Child Care Subsidies, Wages, and Employment of Single Mothers" (Georgia State University, August 2005), which finds that a 50 percent reduction in the cost of child care would result in a 3.8 percentage point increase, and 5.4 percent increase, in employment among single mothers; Bong Joo Lee and others, *Child Care Subsidy Use and Employment Outcomes of TANF Mothers during the Early Years of Welfare Reform: A Three-State Study* (Chapin Hall Center for Children at the University of Chicago, September 2004), which finds that among single mothers who were receiving TANF or who had recently left TANF during the early years of welfare reform (1997–99), child care subsidies increased employment retention over a two-year study period by 25 to 43 percent, depending on the state; Sandra K. Danziger, Elizabeth Oltmans Ananat, and Kimberly G. Browning, "Child Care Subsidies and the Transition from Welfare to Work," Working Paper 03-11 (National Poverty Center, 2003), which finds that families leaving welfare with child care subsidies had twice as many months of work as those who had not used care and nearly 15 percent more than those who used unsubsidized care; Fred Brooks and others, "Impacts of Child Care Subsidies on Family and Child Well-Being," *Early Childhood Research Quarterly* 17 (2002): 498–511, which compares subsidy recipients among the working poor with those on a waiting list, controlling for numerous factors, and finds an 18 percentage point difference in employment rates among the two groups just a few months after applying for subsidies; David Blau and Erdal Tekin, "The Determinants and Consequences of Child Care Subsidy Receipt by Low-Income Families," in *The Incentives of Government Programs and the Well-Being of Families*, edited by Bruce Meyer and Greg Duncan (Chicago and Evanston, Ill.: Joint Center for Poverty Research, January 2001), which calculates that among single mothers with a child under age thirteen, "subsidy recipients were about 2.5 percentage points more likely to be employed than nonrecipients, and about 5 percentage points more likely to be employed after controlling for a small set of family characteristics."

49. Rachel Schumacher and others, *All Together Now: State Experiences in Using Community-Based Child Care to Provide Prekindergarten* (Washington: Center for Law and Social Policy, 2005).
50. For an examination of the relationship between subsidy phase-outs and tax credit phase-ins based on the law and policies in effect at that time, see Thomas Gabe, Bob Lyke, and Karen Spar, *Child Care Subsidies: Federal Grants and Tax Benefits for Working Families*, Report for Congress RL30081 (Congressional Research Service, 1999).