Childcare costs: Yet another way we're failing the poor [1]

Opinion
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EXCERPTS

The cost of childcare has grown tremendously in the United States over the last few decades. According to a survey by Pew research, for high-income families, childcare costs could average about 7% of income, while for low-income families, they could be as high as 40% of income. To offset these costs, certain provisions exist in the tax code, such as the Child Tax Credit and the Child and Dependent Care Credit. Programs like the Earned Income Tax Credit are also more generous towards families with children. In addition, states use block grants to provide subsidized day care centers and other subsidies to help low-income families meet these costs. Despite these provisions, cross-country comparisons by the Organization for Economic Cooperation and Development show that the U.S. is an outlier when it comes to the use of informal sources of care, such as grandparents or babysitters.

As per the OECD, in a typical week, American children under 2 years spend about 25 hours per week in informal care, compared to the EU-average of 3.5 hours, and children aged 3-5 years spend 23 hours compared to the EU average of 3.2 hours. According to the US Census Bureau, in 2011, 49% of children aged 0-4 with working mothers were primarily cared for by a relative while 24% were in center-based care. These numbers are striking particularly because research suggests that the quality of early childcare has significant implications on cognitive achievements at later stages.

Quality of informal care

If informal care was unambiguously of higher quality than formal daycare, the skewness in the data might make sense. However, research suggests that there is likely to be a lot of variability in the quality of care provided informally. Some studies suggest that because relatives (primarily grandparents) are unlikely to stick to a schedule or invest as much in education, children brought up by relatives are less school-ready than those who attended formal daycare centers. A 2011 paper by economists Raquel Bernal and Michael Keane goes even further and finds that informal care has significant negative effects on test scores while center-based care has no adverse effect on cognitive development.

Who uses informal care?

Income is a significant factor affecting choice of care. Studies suggest that higher income families generally choose center-based care as opposed to lower income families who tend to choose relative care or federally subsidized care. A 2007 study found that as family income increases or employers assist with childcare costs, mothers were more likely to use center-based care. Moreover, it is often the preferred choice for women who have unpredictable or irregular schedules. A recent study suggests that mothers who lived in states with more generous childcare spending or more generous TANF eligibility were more likely to choose center-based care. Finally, low-income mothers are also more likely to use multiple types of care arrangements simultaneously which are likely to be detrimental to children. Therefore, the choice of informal care over center-based care appears to be a consequence of costs and availability, rather than quality.

Policy solutions

As I have written in a Tax Notes article, the EITC is the program best targeted to help low-income working families with children. A big advantage is that it is fully refundable, which makes it available to poor families with no income tax liability. Meanwhile, the Child Tax Credit is not as well targeted towards the poor. The benefits extend up the income ladder so that even relatively well-off families benefit from the credit. However, as it is partly refundable, only some poor households can benefit from it. The Child Care Credit, as it currently exists, is the least helpful for low-income families. Poor families have little access to it as it is nonrefundable and its benefits are concentrated among high-income families.

In terms of policy solutions to help low-income families, better targeting of benefits towards low-income households is, at the very least, essential. An expansion of the EITC and the Child Care Credit is also critical. The caps on creditable expenses of the Child Care Credit are not automatically adjusted for inflation and have not been increased to account for the soaring costs of childcare. The Consumer Price Index for childcare and nursery school costs has risen 175% since 1991, but the caps are only 50% higher than in 1976. In addition, the

Child Care Credit needs to be made refundable so that families with no tax liability are able to benefit from it.

Along with these tax credits, federal law states that children are eligible for services under the Child Care Development Fund if their family income is at or below 85% of the state median income; however, the majority of states set eligibility limits below that threshold. Some studies estimate that only 12-15% of eligible children are served. In addition, an analysis of the program by the Urban Institute found that, in general, the quality of care used by families subsidized through CCDF vouchers was lower than the quality of care used by unsubsidized families.

Dependence on the informal system of childcare provision in the United States is worrisome because of quality problems, but it is even more troubling that the average quality of care at formal day care centers is also mediocre as compared to other developed countries.

Therefore, while it is important to debate ways in which family leave, particularly maternity leave, can be funded to help families meet the added cost of childcare at the time of birth of a child, it is equally important to figure out ways to provide high quality care for children as mothers return to work. This requires reforming the current system of childcare subsidies and childcare provisions in the United States, particularly for low-income families. Not only will this help the current generation of working parents, but it will prove, undoubtedly, to be a good investment in our future generations.

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