Insight

Clinton's $400 Billion Shell Game

GORDON GRAY | MAY 10, 2016

Former Secretary of State Clinton is proposing to "cap" child care expenses to 10 percent of a family's budget. Indeed, according to one report, Clinton will propose that "the federal government should commit to making sure that no family ever pays more than 10 percent of its income on child-care expenses." The proposal is not a cap at all, but rather a new federal entitlement program that would subsidize child care with taxpayer dollars. The plan appears to be borrowed in whole from a policy proposal outlined by a liberal non-profit in Washington DC. The proposal would provide federal subsidies for child care costs above 10 percent of household income. Estimating the cost of this vague proposal is challenging, but a preliminary analysis suggests it could cost as much as $40 billion per year, or $400 billion over a decade.

In discussing the burden that the high cost of child care places on families, conspicuously absent is any discussion on cost. Rather, the proposal just shifts the burden from individual families to taxpayers broadly, or more specifically, from families to the government, which is funded by families and individuals. Further, the policy rewards increasingly expensive child care by subsidizing every dollar in costs above the 10 percent threshold. The new plan then, would reward child care services for being more expensive.

According to the U.S. Census, there were over 20 million children under 5 years in 2011. Among these children, about 8.5 million were receiving child care from relatives, while 6.7 million were in some form of nonrelative care. Among this group, about 4.8 million were in a care facility such as day care or nursery school, while another 2.3 million children were receiving non-relative care, most of which was in a child care provider's home. Over 7.9 million children had no regular child care arrangement.

Capping household expenditures for child care would transfer the costs of any overage of the 10 percent household income threshold to the government – providing a subsidy to the 6.7 million children's households already paying for some form of care. Based on state level

data, the national average annual cost of care for a 4-year old in a child care center is $7,943, while the average cost for a 4-year old in a family care center is $6,738. Based on a median household income of $50,054, these costs are $2,937 and $1,733 over the 10 percent income threshold – which would then be transferred to the federal government at a cost of $18.05 billion per year. However, this program would likely increase child care utilization – among the 7.9 million with no regular care, which could more than double annual costs to almost $40 billion per year.

It is also important to note that these are based on national averages. Regional variation would likely vary these estimates considerably.