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# White House's promised childcare subsidies face a host of 'devils in the details'

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The \$1.75-trillion [Build Back Better \(BBB\) proposal's](#) promise to cap childcare expenses at 7% of income for families earning up to \$300,000 faces a series of policy hurdles regarding cost, equity, long-term impacts, and how such a program might be administered. While subsidized childcare would meet a [pressing need](#) for many low- and modest-income working parents, providing benefits to upper-income professionals and inflationary impacts could push the [program's cost](#) as high as \$1 trillion over 10 years.

Some analysts warn that massive subsidies combined with costly regulatory requirements could end up reducing care choices for many low-income families, particularly those preferring to look after their children at home. According to a [Heritage Foundation study](#): "Instead of focusing on lower-income families in need, the proposed subsidies would disproportionately benefit high-income families in high-cost states. These subsidies would do nothing to help the majority of families that prefer family-based childcare, and could limit options by crowding out smaller, faith-based, and more accommodating childcare providers."

The following table estimates how the brief parameters<sup>i</sup> in the legislative framework released by the White House last week would translate into payments for two-child families of varying incomes in states with differing costs of childcare.

**Table 1 - Estimated BBB childcare subsidies at different family incomes in states with high, medium, and low childcare costs**

<b>Family income</b>	<b>Childcare cost cap @ 7% of income</b>	<u>High-cost:</u> Subsidy if care for 2 kids costs \$44K (MA)	<u>Mid-cost:</u> Subsidy if care for 2 kids costs \$28K (OR)	<u>Low-cost:</u> Subsidy if care for 2 kids costs \$12K (MS)	<u>Deluxe:</u> Subsidy if care for 2 kids costs \$52K (top DC school)
\$300,000	\$21,000	\$23,000	\$7,000	\$0	\$31,000
\$200,000	\$14,000	\$30,000	\$14,000	\$0	\$38,000
\$100,000	\$7,000	\$37,000	\$21,000	\$5,000	\$45,000
\$50,000	\$3,500	\$40,500	\$24,500	\$8,500	\$48,500
\$25,000	\$1,750	\$42,250	\$26,250	\$10,250	\$50,250

[Center on Capital & Social Equity](#) estimates. Sources: [Child Care Costs By State 2021](#), [Tuition & Financial Aid – Congressional School](#), and [The Build Back Better Framework: President Biden’s Plan to Rebuild the Middle Class](#)

Here are some observations and comments on what the table shows that may be relevant as policymakers flesh out details:

**Progressivity (low-income families get more):** Capping childcare costs at 7% of family income results in a generally progressive program within geographic areas and states. That’s a plus. A 7% cap would limit the cost of care for two children for a family earning \$25,000 to about \$1,750. A family earning \$300,000 would be responsible for paying \$21,000.

**Regressivity (wealthy states get more):** Because average childcare costs range from less than \$6,000 a year in Mississippi to more than \$14,000 in Massachusetts, the cost caps would result in many more federal dollars flowing to

wealthier states than poorer ones. That could raise questions of equity, particularly in the Senate.

The table estimates subsidies for two children in a high-cost state like Massachusetts would range from about \$23,000 for the highest-income families eligible to about \$42,250 to families with low earnings. In states with average childcare costs like Oregon, the subsidy range drops from \$23,000-\$42,250 to \$7,000-\$25,250. In low-cost Mississippi, the amount of money Uncle Sam would send families would drop further, ranging from \$0 for higher-income families to about \$10,250 for lower-income families.

**Targeting and program cost:** As described above, the subsidy parameters in the BBB framework make it difficult for Congress to target spending to both low-income families and low-income states. Another issue is whether subsidies should be reduced, or eliminated, for families making over a certain amount or a certain percentage of state or local median income. Do families making \$300,000 really need taxpayers' help? Targeting subsidies to lower-income families and cost-efficient providers could reduce the tax and debt burden required to support the program.

**Market side-effects.** As has happened in other markets, a large injection of capital into local economies could cause the bidding up of childcare prices in a few years. That's not necessarily bad, especially if it resulted in pay and benefit raises for childcare workers who are among the lowest-paid people in the country. But these workers have limited bargaining power. Price inflation may well erode the subsidies' ability to help families while increasing profits for business owners.

Consumers arguably need to have "skin in the game" to keep prices in check. Without incentives to economize, families at all income levels with capped childcare costs could switch to higher-cost providers offering more amenities or convenience at no monetary loss.

**Gaming:** Isolated cases of gaming could damage the program politically. A high-earning couple not eligible for a subsidy because the cost of care is low where they live could become eligible for a large subsidy by moving to a high-cost area nearby. An extreme example would be a couple of lawyers moving to Washington, D.C. to work in Congress and enrolling their two kids in childcare at

an [elite school](#) for \$52,000 a year. If the couple made \$300,000, the government would cover \$31,000.

By the way, the program cost caps, as advertised, would allow many low-income families to afford childcare at schools catering to the elite. But how many poor kids would actually be able to enroll in childcare centers designed for high-income customers? Would new sorting methods might come into play?

**Meshing with other government subsidies:** A major question is how childcare subsidies would coordinate with -- or possibly cancel out -- other government assistance including the child tax credit (or deduction), the EITC, government-subsidized health insurance, and existing state childcare programs. For example, would a low-income family of four in an expensive area be able to collect more than \$40,000 for childcare assistance along with \$7,200 in child tax credits, \$5,000 in earned income tax credits, and \$10,000 worth of subsidized health coverage? How would all those programs fit together? Adding work requirements to receive the child tax credit strengthens the case for childcare subsidies.

**Program administration:** Would the federal government send the subsidies to families, daycare providers, or states? What flexibility would they have? What rules and procedures would be needed to make sure the program worked as intended?

As mentioned at the outset, costly regulations could push low-cost providers out of the market and leave families with fewer choices. These are just some of the issues that need to be addressed. The subsidies outlined in the BBB framework need a lot of work to move from the idea stage to reality.

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<sup>i</sup> According to the White House, the BBB framework: “Makes the largest investment in child care in the nation’s history, saving most American families more than half of their spending on child care.

“For decades, child care prices in the United States have risen faster than family incomes, yet the United States still invests 28 times less than its competitors on helping families afford high-quality care for toddlers. The Build Back Better framework will ensure that middle-class families pay no more than 7 percent of their income on child care and will help states expand access to high-quality, affordable child care to about 20 million children per year – covering 9 out of 10 families across the country with young children. For two parents with one toddler earning \$100,000 per year, the framework will produce more than \$5,000 in child care savings per year. Nearly all families

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of four making up to \$300,000 per year will be eligible. And, better access to high-quality child care can increase the likelihood that parents, especially mothers, are [employed](#) or [enrolled](#) in education and training beyond high school, while also providing [lifetime benefits](#) for children, especially those who are economically disadvantaged.”