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# Federal financing of child care: Alternative approaches and economic implications

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## Abstract

This paper surveys alternative approaches to financing child care at the federal level and discusses their economic implications with respect to female labor force participation, fertility, child care demand and supply, and poverty. The current system of federal support for child care is seen to consist of a series of overlapping programs that tend to create inefficiencies and inequities in the distribution of child care benefits. Four basic principles of an ideal child care system are outlined, and a general two-tiered system of support is proposed that would satisfy these four principles. The two-tiered system is centered on a refundable tax credit considerably more progressive than the current child care tax credit. A simulation

analysis indicates that the proposed refundable tax credit would not cost much more than many of the more popular child care bills currently being debated in Congress.

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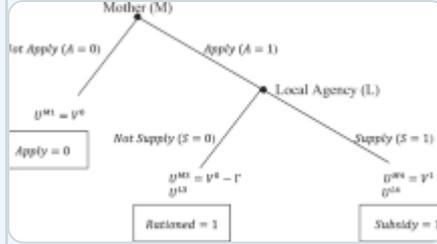
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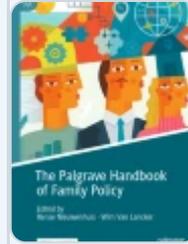
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