

INTRODUCTION

The Center for American Progress is pleased to host a full-day conference with academic and policy experts from around the country who will highlight options for reforming the tax code. Many experts agree that the tax code is in need of repair. Yet it has been 20 years since the landmark 1986 reform. Given the growing complexity of the tax code, increased revenue pressures, and a changing economy; tax reform will likely be a central issue for 2006 and beyond. This conference will provide a forum for sharing proposals—both quick fixes and broad overhaul—and for open and engaged discussion.

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CHILD-REARING AND THE CODE: A PROPOSAL FOR CARETAKER RESOURCE ACCOUNTS

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In this paper, I present a proposal for “caretaker resource accounts” first developed in earlier work.¹ The basic idea is to provide greater social support for adults engaged in child-rearing. The U.S. tax code already contains many provisions that provide some support for parents and that are dependent upon family structure, but these provisions could be restructured to provide more effective family supports.

Child-rearing imposes heavy economic and personal costs on parents, and these costs still fall disproportionately on mothers. Child-rearing is time-intensive, and the cost of paid child care is high relative to wages, especially mothers’ wages. Mothers who manage the competing demands on their time by taking part-time jobs or leaving the labor force often lose (or fail to build) human capital. Today, motherhood is a bigger economic burden than gender: On average, mothers work less than men and childless women, and when mothers do work, they earn less and achieve less over a lifetime. Lower earnings and interrupted careers translate into smaller private pensions and smaller individual Social Security entitlements. (While some mothers may be eligible for larger Social Security benefits as spouses, those entitlements are contingent on marriage and on spousal earnings.)²

These facts are familiar, but solutions remain contested. Some view the economic situation of parents as a consequence of personal choice and thus not a matter for public policy remediation. Others endorse the use of collective resources to improve parents’ (or mothers’) situations in some fashion, but goals differ. Some proposals seek to increase mothers’ employment, others aim to expand access to part-time jobs and “family friendly” work options, and still others seek to redistribute income in an unconditional mode.

¹ Anne L. Alstott, *No Exit: What Parents Owe Their Children and What Society Owes Parents* (Oxford University Press, 2004), chapters 5 and 6.

² For support for these empirical propositions, see Alstott, *No Exit*, chapter 2.

In this paper, I take as my goal a proposition that I have defended in depth elsewhere: Public policy should redistribute financial resources from non-parents to parents, with the goal of improving parents' options for caring for their children while securing their own economic future.³ More concretely, I propose a program of "caretaker resource accounts," which would provide from \$2,000 to \$10,000 annually to the parents of a young child (possibly defined as under six, under 13, or under 18).⁴ The annual transfer could be used, at the parent's option, in any of three ways: to purchase paid child care, to pay tuition for parents to complete their education (or retrain), or to augment retirement savings. A parent could spend her entire grant in the current year or save some for a future year, earning interest in the meantime. She could spend the entire grant on one item or split it up among different uses.

Caretaker resource accounts would offer equal dollars to every parent, whether or not he or she holds a paid job. This neutrality is rooted in a vision of justice, but it also has immediate political and administrative advantages. Politically, the program would sidestep the culture wars over "working" and "non-working" mothers, since every parent would receive an equal share of resources. Administratively, caretaker resource accounts would avoid the complexities and inequities of employer-linked benefits: They would be fully portable across jobs and would remain fully available during periods of nonwork.

In this paper, I briefly describe caretaker resource accounts and explore how they might be funded and integrated with the federal income tax system. In the final section of the paper, I describe several variations and consider revenue cost.

CARETAKER RESOURCE ACCOUNTS

The structure of caretaker resource accounts reflects a normative commitment to individual choice: The idea is to help create a wider array of options for parents and to permit each to choose for herself how best to combine paid work and child-rearing over time. The program aims to help parents preserve, recreate, or replace earning power lost during the child-rearing years. But the program permits parents to choose for themselves how best to accomplish this, and implicit in the notion of "choice" is an acceptance of variable outcomes. Some parents will work more, while others will seek more time with their children, and some parents' plans will pay off as expected, while others may prove disappointing.

The program's focus is long-term planning rather than short-term consumption: The idea is to enhance choices related to long-range economic security, rather than choices

³ See Alstott, *No Exit*, chapters 3 and 4.

⁴ The last section of this paper considers alternative specifications.

about short-term consumption. (This is not to suggest that consumption poverty is not a problem for public policy, simply that it is not the problem I am addressing here.)

The three uses correspond to three economic hardships created by parenthood. Child care costs have been shown to be a strong determinant of mothers' employment, and studies have documented that child-care subsidies can increase mothers' labor supply. The education option responds, albeit imperfectly, to the loss of (or failure to develop) "human capital" when mothers leave the workforce, cut back working hours, or take "mommy track" jobs. While education cannot replace lost years of work experience, it can enhance employment options by helping parents obtain a GED, vocational education, or (if appropriate) college education. Finally, the retirement savings option responds to a characteristic economic deficit of motherhood. Because mothers have lower wages than other women, have more interrupted careers, and (on average) work less over a lifetime, they are less likely than others at similar income levels to have private retirement savings or (depending on their earnings pattern and marital status) Social Security coverage.

Mechanically, the program would deposit a fixed sum each year into an individual account. The "accounts" might be actual bank accounts held by private financial institutions, or they might be notional entries on the books of a government agency, e.g., the IRS.⁵ Parents could elect to spend the funds in the current year or could defer their choice until a later year. Unused funds would accrue interest at a market rate until parents decided to use the accumulated funds for one of the three options. (At some endpoint, unused funds would "default" to the retirement savings option. The funds could not be withdrawn in cash before retirement.) This temporal flexibility would permit parents to plan ahead for a return to college or child care for a new job. The account structure also provides continuity across time, avoiding the "use it or lose it" structure of an annualized reimbursement.

How much should the annual transfer be? For purposes of illustration, I will use the figure \$5,000, but later in the paper, I will consider alternative amounts ranging from \$2,000 to \$10,000. Transfers at this level would mark a significant increase in the resources available to the average parent. A typical family with small children has income of perhaps \$50,000 per year, little or no savings, and a significant debt burden. For these families, several thousand dollars targeted specifically to child care, education, or retirement could help channel additional investment into these items.

⁵ If the program were administered through the tax system, the "accounts" would be claimed in the form of refundable tax credits. If the credits were transferable, Abigail could use them as vouchers to pay for child care, tuition, or a deposit into a retirement account, with the vendor then seeking government reimbursement.

To illustrate, suppose that Abigail is the mother of a new baby. Each year, she would be able to spend up to \$5,000 on child care or on tuition for herself, or she could make a deposit of \$5,000 into a retirement account in her own name. If she spent less than \$5,000 in any year, the unspent funds would accumulate with interest to be used in a future year. Abigail could not, however, withdraw cash or spend the money on living expenses for her family or tuition for her child. Abigail might use her caretaker resource account to pay for child care while she holds a paid job. If she is out of the work force, or working part-time, she might save all or part of her money for several years, earning interest in the meantime, to go back to school when her child is older. If she doesn't want either education or child care, she can supplement her retirement savings.

Caretaker resource accounts would mark a notable increase in collective financial assistance available to many parents relative to existing tax programs for child care, education, and retirement.⁶ For example, the dependent care tax credit reimburses at most \$2,100 annually, and often much less, since the credit rate phases down at fairly low levels of income (from \$15,000 to \$45,000) and since it offers only a 20 to 35 percent match rate (rather than the first-dollar reimbursement that caretaker resource accounts would provide). The Hope credit and lifetime learning credit now offer either \$1,500 or \$2,000 annually for education, but not all students are eligible, the match rate is as low as 20 percent (in the case of lifetime learning), and both credits phase out completely by \$100,000 (or so) of family income). Federal subsidies for retirement savings depend on factors including marginal tax bracket, employment status, and personal savings choices. But many low-income workers, part-time workers, and at-home parents have little or no government assistance for pension savings. (This statement sets aside Social Security, which provides significant retirement transfers to some low-wage workers and to some non-working parents.)

More fundamentally, caretaker resource accounts attempt to rethink the normative foundations of existing transfers to parents. Like other asset-based plans for redistribution (including stakeholder grants and individual development accounts), caretaker resource accounts endow each participant with an equal, fixed sum and then permit (and require) individuals to make trade-offs. For example, if a parent uses her funds for child care, she cannot also spend the money on tuition

⁶ Depending on the size of the annual grant, and on how the program is financed, some parents could receive less than current law. For example, a transfer of \$2,000 per family would be less than the \$3,100 that could be received by a family claiming the maximum dependent care credit and lifelong learning credit under current law. But this is a fairly strained hypothetical: It is unlikely that many families with incomes of under \$15,000 can claim the maximum DCTC, since it is non-refundable and has a 35 percent match rate, and even less likely that families in that income range would also be spending \$10,000 out of pocket to claim the maximum lifelong learning credit at the 20 percent match rate.

or retirement. In contrast, current law provides additive subsidies: A family that uses tax subsidies for child care, education, *and* retirement generally receives more assistance than a similar family that uses only one of them.

This resource-equality feature reflects several normative judgments about the allocation of funds among participants and across different uses. Caretaker resource accounts divide the total budget equally among parents; they permit each parent to choose how to allocate the funds among child care, education, and retirement; and they allow parents to defer unspent amounts across years.

Caretaker resource accounts are thus egalitarian, individualistic, and decentralized, compared to existing programs. Traditional subsidies tend to allocate funds to different purposes, with central planners allocating a fixed budget to each use or (as in the case of tax programs) a maximum claim per taxpayer. Claimants cannot choose to trade off uses that are less valuable to them (say, an education credit) for uses that are more valuable (say, a child care credit). And most annual subsidies incorporate a use-it-or-lose-it structure: Individuals who do not claim their subsidy in one year generally cannot ask for twice as much the next year.

EFFECTS OF CARETAKER RESOURCE ACCOUNTS

Caretaker resource accounts aim to respond to parents', and especially mothers', economic disadvantage. But some might worry that the program could encourage even more mothers to work less, leaving them worse off, rather than better off, over the long term.

In theory, behavioral responses to the program will vary, depending on mothers' preferences. Some mothers would choose the child-care voucher and would (re-)enter the labor force or increase their hours of work. Others would not respond in the short-term but might in the longer term, re-entering the labor force sooner than otherwise or acquiring education to re-enter at a higher level than they would have done in the absence of the program. Still others would defer or reduce their work effort, since they have greater options for returning to work and better long-term options (via the retirement transfer) if they do not work.

The empirical economics literature has studied programs that differ substantially from caretaker resource accounts. At one extreme are traditional (pre-1996) welfare programs — small, unconditional cash grants that supplement family consumption for the very poor. At the other extreme are programs that provide resources conditional on paid employment (e.g., child-care subsidies and the earned income tax credit). Caretaker resource accounts fall somewhere in the middle. Unlike income support,

caretaker grants would not directly replace earnings: One cannot use one's grant to pay the grocery bill. But, to a greater extent than work-conditioned subsidies, caretaker resource accounts could enhance the appeal of non-work.

Studies of pre-1996 welfare programs find small reductions in work effort, but these studies likely overstate the negative labor-supply effects of caretaker resource grants, which do not provide current income support. Studies of child-care subsidies find that positive effects on both single and married mothers' labor supply.⁷

While empirical estimates would be useful, in the end, the significance of labor supply effects depends on a normative judgment. Obviously if caretaker resource accounts were intended to maximize maternal labor supply, they should be structured differently — as wage subsidies or child care subsidies or a combination. But if the goal is, instead, as I have stated it — to expand parental opportunity sets — it becomes a trickier question to decide what level of work reduction, if any, would be severe enough to conclude that the program had failed. A purist, ex ante individualist view would consider consequences irrelevant: Choices are available, choices are made, end of story. The more one introduces a concern with ex post outcomes, then the more relevant is empirical evidence on behavior. This paper (and the book on which it is based) reflect a more ex ante orientation. But even for those with an ex post orientation, it is worth noting that the net impact on work effort could be positive. Further, even those who cut back labor supply would be doing so against a backdrop of greater retirement security and re-entry options than presently available.

A caveat regarding cash equivalence is important. To this point, the program has been presented as if recipients would spend their caretaker resource accounts on incremental purchases of child care, education, and retirement. But this program is, like any in-kind or voucher program, susceptible to the phenomenon that Shaviro and Bradford call “cash equivalence.” Nominally, the program restricts parents to the purchase of child care, education, or retirement savings. But parents who would otherwise buy one of the three services will find that the new grant frees up extra funds in her budget. For instance, if a family would pay at least \$5,000 for child care in any case, the advent of a \$5,000 caretaker resource account program will operate as the equivalent of an unconditional cash transfer of that amount.

Cash equivalence affects any subsidy program targeted to the purchase of a specific good, where it is not possible (or is too costly) to observe incremental purchases rather than total purchases. Where cash equivalence operates, the subsidy redistributes wealth but does not change the consumption bundle.

⁷ I provide a more extensive discussion, with citations, in Alstott, *No Exit*, pp. 102-106.

What is the significance of cash equivalence for the proposal? Many families today do not spend a total of \$5,000 on child care, parental education, and retirement savings, and for these, the program would encourage an incremental investment in these items.⁸ Even where cash equivalence comes into play, however, the program still serves a useful end, ensuring that all parents spend at least \$5,000 on future-oriented investments in their opportunity set: The program helps preserve a floor of spending, although it may also provide some with extra money in their general budget.

Finally, caretaker resource accounts raise additional technical issues, which are dealt with in detail in other work.⁹ For example, the program is targeted to parents who devote substantial time to child-rearing, and so the funds should not be available to noncustodial parents. But when both parents live with their children, there is a difficult choice to be made: Should the caretaker resource account be made available jointly, split between the two parents, or targeted (and if so, how?) to the parent who is primarily involved in child-rearing? Given the gendered but variable division of labor within households, each option has attractions and drawbacks.

The question of income-testing is also a difficult one, and reasonable people may differ. Universality is initially appealing, since family income may be a poor proxy for mothers' individual economic situation.¹⁰ A middle-class mother who relies on a husband's or partner's earning power can easily fall several rungs down the economic ladder if she divorces or is widowed; a caretaker resource account in her individual name could help cushion that fall. But income-testing may be appealing on practical, political grounds, particularly if the income limits are set at relatively high levels.

FUNDING CARETAKER RESOURCE ACCOUNTS

How much would caretaker resource accounts cost in revenue terms? In this section, I estimate the ballpark cost of different specifications of the program. I then consider whether existing tax and non-tax programs might be cut back to help fund the new initiative.

In principle, caretaker resource accounts ought to be offered to the parents of young children, since their care imposes the greatest demands on parental time, but there is no necessary way to define "young." This is not a trivial issue: The program's impact and aims would differ were it to target only parents of preschoolers rather than parents of older children as well. To illustrate the options, consider three designs with age cutoffs for children at age six (when most enter school), 12 (when most can care for themselves without a baby-sitter), and 18 (when many leave home for college or other pursuits).

⁸ See Alstott (2004), chapter 6.

⁹ See Alstott, *No Exit*, chapters 6 and 10.

¹⁰ See Alstott, *No Exit*, pp.95-111.

Should the annual grant to parents be adjusted for the number of children in the family? Bigger transfers to larger families would recognize that parents sacrifice additional time and earning power to rear multiple children. But a per-child grant could (in theory) alter child-bearing choices. Even if the grant were to be adjusted for the number of children, it is not clear what the increment per child should be; while there are data on consumption patterns by family size, we do not have equally precise data on the impact of incremental children on parents' long-term economic outcomes.¹¹

Table 1 reproduces estimates based on an intermediate approach: The annual grant would be invariant to the number of children but would continue until the youngest child in the family reached the age cutoff.

Table 1. Revenue Estimates by Size of Grant and Age of Youngest Child

Children's age	Number (millions of families)	\$2,000	\$3,500	\$5,000	\$10,000
Under 6	15.614	\$31 billion	\$55 billion	\$78 billion	\$156 billion
Under 12	26.118	\$52 billion	\$91 billion	\$131 billion	\$261 billion
Under 18	35.944	\$72 billion	\$126 billion	\$180 billion	\$359 billion

Source: Author's calculations based on data found in U.S. Bureau of the Census, America's Families and Living Arrangements: 2004, Table F1. Family Households, by Type, Age of Own Children, Age of Family Members, and Age, Race and Hispanic Origin of Householder, found at <http://www.census.gov/population/socdemo/hh-fam/cps2004/tabF1-all.csv>.

Some of the revenue cost of caretaker resource accounts might be recovered by eliminating programs rendered duplicative, for example the dependent care credit and the exclusion for employer-provided dependent care assistance. (See Table 2.) But these are small revenue dollars: only \$4 billion or so in 2005.¹²

¹¹ Jane Waldfogel has found that the motherhood wage gap is smaller for one child than for two or more. See the discussion in Alstott, No Exit, pp. 24-27.

¹² One might object that the dependent-care provisions are intended to redress the tax bias against paid work created by the exclusion of imputed income. Replacing the dependent-care credits with a program (like caretaker resource accounts) that is not limited to working parents would vitiate this purpose. This point is valid, though limited. The dependent care provisions are inadequate to address the biases against work by secondary earners that are created by joint filing (in the income tax and the EITC), and they are a distinctly second-best remedy for the exclusion of imputed income. This paper is not the place to explore these issues in detail, but as a starting point, dependent-care credits and deductions conflate the costs of purchased child care with the value of rearing one's own children. There are deeper issues at stake as well, because the claim that there is a "bias" against paid work implies that a just baseline system of taxation would tax imputed income. This is, to put it mildly, a debatable claim. One's view depends on (inter alia) the justification for income taxation in the first place: Is the tax an effort to capture utility differences (implying that imputed income should be taxed, at least ideally)? Or is the tax instead a means of remedying inequalities in access to jobs

Caretaker resource accounts might also attempt to capture a portion of revenue now devoted to education and retirement tax subsidies. The goals of these programs overlap with those of caretaker resource accounts but are not identical, of course, since the existing programs benefit non-parents as well as parents. For purposes of illustration, consider a 10 percent reduction in the \$133.2 billion in tax subsidies for retirement and education listed in Table 2: that would raise \$13 billion for caretaker resource accounts. A 20 percent “haircut” would raise \$26 billion, and so on.

Table 2. FY 2005 Tax Expenditures for Child Care, Education, and Retirement

Child care	
Dependent care tax credit	\$3 billion
Exclusion for employer-provided dependent care	\$1 billion
Retirement and education	
Exclusion of employer pension contributions, IRAs, Keoghs, and saver’s tax credit	\$124.4 billion
Tax credits for postsecondary education and deduction for interest on student loans	\$6 billion
Deduction for higher education expenses	\$2.8 billion
Adjusting for family size	
Child tax credit	\$46.6 billion
EITC	\$39 billion

Source: Joint Committee on Taxation, Estimates of Federal Tax Expenditures for Fiscal Years 2005-2009, JCS-1-05 (Jan. 12, 2005), available at <http://www.house.gov/jct/s-1-05.pdf>.

Should caretaker resource accounts also replace a broader array of tax provisions that attempt to adjust tax liability between parents and non-parents? The personal exemption for children, the child tax credit, head of household filing status, and the family size adjustment in the earned income tax credit (EITC) all operate to adjust (positive or negative) tax liability for the presence of children. Table 2 shows the 2005 revenue cost of the child credit and the EITC. (Figures for the personal exemption and head of household filing status were not available in the JCT tax expenditure tables.)

While the purposes of caretaker resource accounts overlap with the purposes of these programs to some degree, there are also critical differences. To the extent that these programs aim to offer subsidies for immediate consumption by families, redirecting the funds to caretaker resource accounts would mark a major change in policy. The EITC, for example, provides income support to the lowest income families. In contrast, the child tax credit is largely a middle-class program.¹³ Taken

or to ex post monetary resources (implying non-taxation of imputed income)?

¹³ See Joint Committee on Taxation, Estimates of Federal Tax Expenditures for Fiscal Years 2005-2009, JCS-1-05 (Jan. 12, 2005), available at <http://www.house.gov/jct/s-1-05.pdf>, pp. 44-45.

together, the \$47 billion now devoted to the child tax credit and the \$4 billion now devoted to dependent-care credits and exclusions would fund a significant program of caretaker resource accounts.

The search for revenue offsets is politically attractive, but it can become counterproductive. The purpose of caretaker resource accounts is to increase collective assistance to parents as well as to change the form of such assistance. A program of caretaker resource accounts fully funded by cutting back other programs for parents would accomplish the latter goal but not the former.

Thinking beyond the tax code, one final issue that is worth consideration in connection with caretaker resource account is Social Security's treatment of spouses. Very generally, the current spousal benefit offers any spouse a benefit of 50 percent of his/her spouse's retirement benefit. If the spousal entitlement is larger than the spouse's individual benefit, s/he receives the higher amount. Many have pointed out the tension in these rules between enhancing retirement security for non-working (or very low-earning) spouses, on the one hand, and discouraging paid work by secondary earners on the other. Some have proposed repealing spousal benefits entirely to eliminate the disincentive. Some propose to replace the spousal benefit by creating a notional "wage record" for years spent in child-rearing and out of the paid workforce. Caretaker resource accounts cover some of the same ground.