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CATO: Warren's day care subsidy plan would increase costs, reduce access

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Democratic presidential candidate and U.S. Sen. Elizabeth Warren's universal childcare plan would result in an all-out takeover of the industry by the federal government, an analysis by the Washington, D.C.-based think tank, The Cato Institute, reports.

"In the wealthiest country on the planet, access to affordable and high-quality childcare and early education should be a right, not a privilege reserved for the rich," Warren said.

Her Universal Child Care and Early Learning plan will "guarantee high-quality child care and early education for every child in America from birth to school age," Warren pledges. "It will be free for millions of American families, and affordable for everyone."

Under Warren's plan, the federal government would partner with local providers in all 50 states, cities, school districts, and other organizations to offer full taxpayer-funded day care for families earning less than 200 percent of the federal poverty line.

The plan also ensures families earning more than the 200 percent poverty threshold would not pay more than 7 percent of their income on childcare costs.

The entire cost of free and reduced cost childcare will be paid for by a tax on the wealthy, Warren's "Ultra-Millionaire Tax." Those with a net worth of more than $50 million would pay "a small annual tax on their wealth," which experts project would generate $2.75 trillion in new revenue over the next 10 years.

While Warren's plan may sound enticing to families struggling to pay childcare, it will "further drive up the market price of child-care, with taxpayers on the hook now for increased use of formal care," Ryan Bourne, R. Evan Scharf Chair for the Public Understanding of Economics at CATO, said.

The alternative is a proposal that would reduce the costs of providing care "through much-needed supply-side reform," he suggests.

"Given the cost implications of capping the per income amount spent by any family, the federal government would inevitably have to circumscribe the nature of care, fix the rates taxpayers would finance or cap the total amount families could spend on child-care within the scheme," Bourne said. "These would fundamentally change the types of care available or used in the sector."

State-level government regulations currently contribute to the high costs of childcare, he argues. Evaluations conducted by the American Economic Association and RAND, suggest that approaches like Warren’s will further reduce the number of child-care facilities available in low income markets and increases prices for families.

The reports suggest such a plan would worsen the supply problem by promising to raise pay rates for day care staff, which in turn would increase demand and restrict supply even more and raise the underlying market prices. These higher prices would be overwhelmingly paid for by the taxpayer.

“Warren’s subsidy response amounts to a classic case of government restricting supply through policy, on the one hand, and then labeling the resulting high prices a ‘market failure’ that needs to be corrected,” Bourne adds.