By Julia Isaacs and Phillip Lovell

PRIORITY OR AFTERTHOUGHT?

CHILDREN AND THE FEDERAL BUDGET

First Focus
MAKING CHILDREN & FAMILIES THE PRIORITY

About the Authors

Julia Isaacs is the Child and Family Policy Fellow at the Brookings Institution and a First Focus Fellow.

Phillip Lovell is the Vice President for Education Policy at First Focus.

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Introduction

A country's priorities are reflected in its budget. Most people agree that "children are our future," but there's less agreement on how well we are preparing the next generation to lead us into that future. Many argue that it is important to invest in children and youth, building their knowledge and skills so they can be productive workers and citizens. But are we investing enough in them?

A recent study of federal expenditures on children from 1960-2017, conducted by Urban Institute researchers Adam Carasso, C. Eugene Steuerle, and Gillian Reynolds, calls into question the extent to which we, as a country, are making children a priority in our budget.[1]

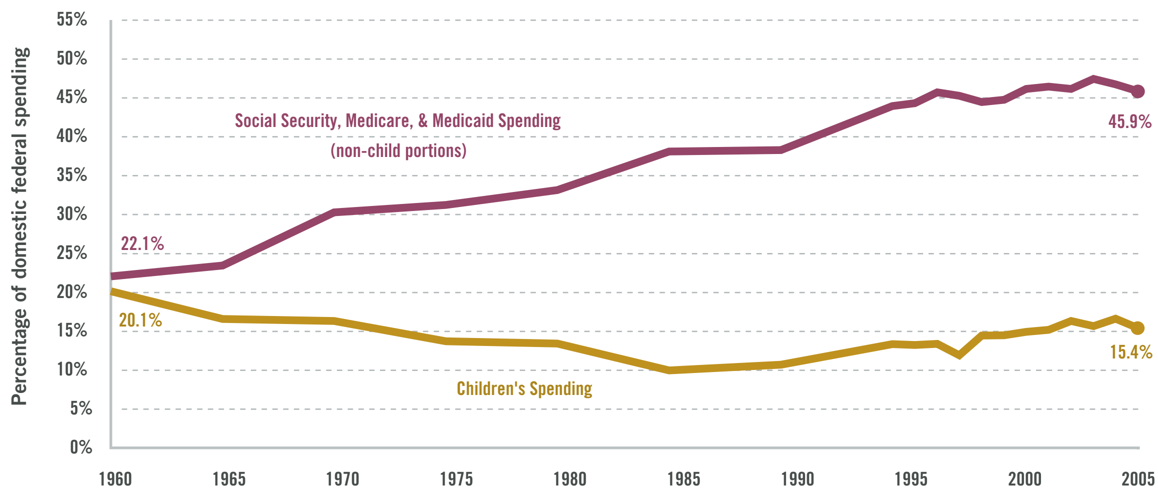
- While federal expenditures on children have grown over the past four and a half decades with the rest of the federal budget, the share of domestic spending focused on children has fallen 23 percent, from 20.1 percent in 1960 to 15.4 percent in 2006.
- Children's programs are not structured to compete for scarce federal dollars. They do not grow with the economy or even inflation; whereas other programs are indexed to economic growth.
- By 2020, spending on children could dry up completely. If entitlement spending continues unchecked and all tax cuts are retained, spending on the non-child portions of Medicaid, Medicare, Social Security, defense, foreign affairs, and interest on the debt could completely consume federal resources, leaving nothing available for children.

How has spending on children changed over time?

Federal expenditures on children have increased over time, though not as rapidly as spending on major entitlement programs focused on the elderly.

As a share of domestic federal expenditures, spending on children fell from 20.1 percent to 15.4 percent of domestic spending between 1960 and 2006 – a decline of 23 percent.[2] By comparison, the percentage of spending focused on the elderly through Social Security, Medicare, and Medicaid has more than doubled, growing from 22.1 percent to 45.9 percent (see Figure 1).[3]

FIGURE 1 Trends in Federal Expenditures on Children and Major Entitlement Programs



Source: The Urban Institute, 2007, based on data from the *Budget of the United States Government, Fiscal Year 2008* and previous years. Children's spending includes tax expenditures. Social Security, Medicare, and Medicaid spending excludes the portion spent on children.

Another way to look at federal spending on children is to consider what portion of the Gross Domestic Product (GDP) is invested in them. Between 1960 and 2006, the level of federal resources focused on children increased from 1.9 percent to 2.6 percent of GDP. However, the percentage of GDP spent on the non-child portions of Social Security, Medicare, and Medicaid jumped almost fourfold – growing from 2.0 percent to 7.6 percent.

While some of the growth in entitlement spending is due to the aging of the population, it also reflects the high cost of health care and retirement benefits. On a per capita basis, the federal government spent $19,380 per elderly person through Social Security, Medicare, and Medicaid in 2005, compared to $4,312 per child.[4]

Why can't children's programs compete?

The children's budget is not on equal footing with other federal priorities. Most programs for children are not indexed to inflation and many are funded through annual appropriations. Each year, they fight for funding in a climate of a zero-sum game where an increase in one program means a decrease somewhere else. For spending on children to expand, Congress must make a conscious effort to either put new resources into existing programs, or create new programs altogether.

Spending on the entitlement programs focused on the elderly is different. The non-child portions of Social Security, Medicare, and Medicaid are on autopilot, receiving automatic increases tied to inflation, wages, and health care costs, as well as the aging of the population. They are not in competition with other federal priorities, or with each other.

How much will we spend on children's programs in the future?

Domestic spending is projected to increase over the next 10 years, but children aren't likely to get their fair share. Under the Urban Institute's projections of spending un-

Children's programs aren't structured to compete, and the competition is fierce.

der current law, children will receive less than 6 percent of the over $600 billion anticipated increase in domestic spending.[5] Without Medicaid, spending on children would actually decrease. Even with Medicaid, spending on children is projected to decline as both a percentage of GDP (from 2.6 percent in 2006 to 2.1 percent in 2017) and as a share of domestic spending (from 15.4 percent in 2006 to 13.1 percent in 2017).

These projections may understate the decline in children's programs because they assume that Congressional appropriators will provide inflation adjustments for federal education programs, housing programs, Head Start, child care assistance, and other programs subject to annual appropriation action. Securing such inflation adjustments will require the proactive attention of lawmakers, given the grim nature of the budget outlook over the next ten years.

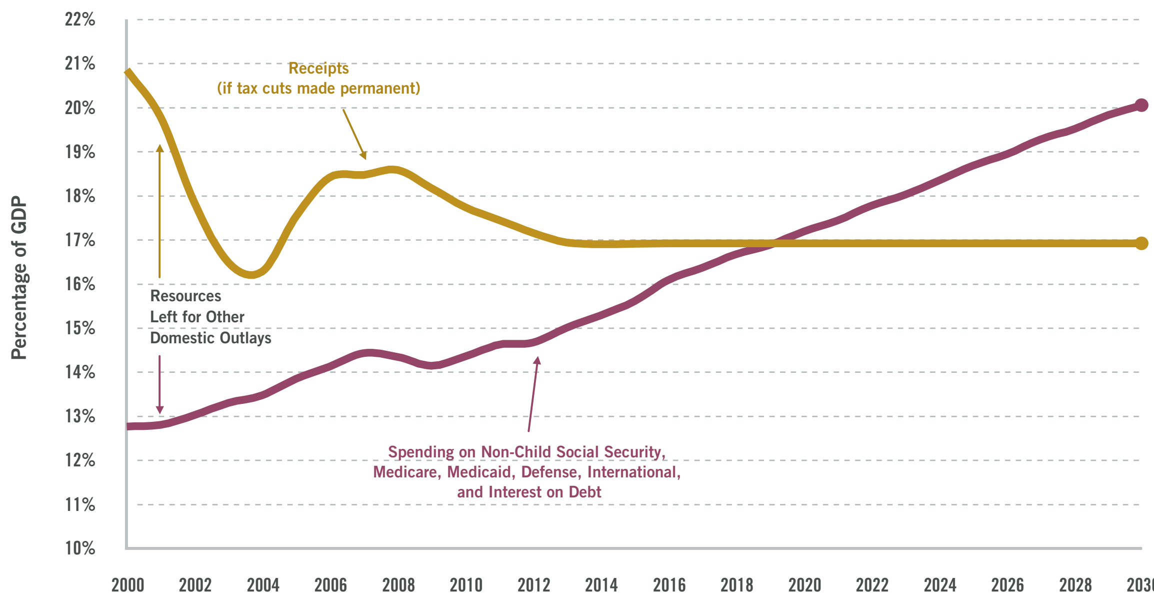
Unfortunately, the situation could get even worse, according to the bleak long-term scenario presented by the Urban Institute. If current growth trends continue, spending on the non-child portions of Social Security, Medicare, and Medicaid, combined with spending on defense, international affairs, and interest on the debt, is projected to total 17 percent of GDP by 2020 (see Figure 2). This would absorb 100 percent of projected tax revenues if one assumes the 2001-2006 tax cuts are extended and if relief is provided under the Alternative Minimum Tax. Under this scenario, any spending on children's programs would be squeezed out of the budget, or be financed through incredible deficits that place a burden on future generations.

As a result of past and current policy choices, funding will be extremely tight for all non-elderly domestic spending, which, in addition to children's programs, includes such domestic spending priorities as agriculture, energy, the environment, highways, justice, unemployment compensation, veterans' benefits, etc. In the scramble for scarce resources, funding on children's programs could fall even lower than the 1.9 percent of GDP invested in 1960, leaving real questions about society's level of investment in the healthy development of the next generation.

Are we meeting the needs of our children?

Analysis of budgetary trends and aggregate spending levels is a useful gauge of governmental priorities, but it does not tell us whether government funds are being spent wisely nor whether funding levels are sufficient to meet children's needs.[6]

FIGURE 2 The Coming Budget Squeeze, Fiscal Years 2000-2030



Source: The Urban Institute, 2007. Calculations and assumptions are based on data from the *Budget of the U.S. Government, Fiscal Year 2008*; CBO's *Budget and Economic Outlook: Fiscal Years 2008 to 2017;* and the Social Security and Medicare *Trustees Reports (2006)*.

While many children are thriving, others have unmet needs that threaten their potential for maturing into the next generation of workers and citizens.

- An alarming 11 percent of children were without health insurance in 2005, according to the Census Bureau's Current Population Survey.[7] This percentage is likely to increase if Congress does not reauthorize the State Children's Health Insurance Program (SCHIP) with additional funding to provide health coverage for America's children.

- An even higher percentage – 38 percent – of fourth-grade children in public schools do not read at even a basic reading level, according to the National Assessment of Educational Progress, with higher levels of reading failure among low-income and minority students.[8] Many of these children started kindergarten well behind their peers, and a high proportion fail to graduate from high school.[9] The federal government could play a key role in addressing these educational gaps by expanding investments in early childhood education and by reauthorizing the No Child Left Behind Act with increased support for high schools.

- Child poverty rates are another indication of trouble; official poverty rates among children were 17.8 percent in 2005, well above the 11.3 percent rate for non-elderly adults and the 9.8 percent rate for elderly adults.[10] International poverty comparisons among developed countries also highlight the risks to American children: a UNICEF study of rich countries throughout the world found that the United States had the highest percentage of children in poverty, and ranked in the bottom fifth on a broader measure of material well-being.[11] Carefully designed economic and social policies are needed to protect our youngest children from the long-term negative effects of poverty.

“The share of domestic spending focused on children is projected to decline unless Congress takes proactive measures to reverse that trend.”

The Way Forward

Although the share of domestic budgetary resources focused on children has decreased over time, federal spending on children is not insignificant. But is it enough? Money won’t solve all of the challenges facing children, but the combination of improved policy ***and*** additional resources might. Unfortunately, children’s programs comprise an especially vulnerable portion of the federal budget – straining our ability to do either.

Unlike programs for the elderly, most programs for children are not indexed to growth in the economy, or even inflation. **They aren’t structured to compete, and the competition is fierce.** In less than 15 years, spending on other federal programs and interest on debt could leave nothing left over for children.

How can we reverse this trend? Bipartisan leadership.

As Congress considers budget resolutions, annual appropriations bills, and reauthorizations, they should ensure that resources are available to help the nation’s children reach their full potential. Specifically, Congress should:

- **Reauthorize the State Children’s Health Insurance Program.** SCHIP has been remarkably successful in expanding children’s health care. Congress should fully fund SCHIP reauthorization, providing adequate resources to maintain coverage for those who are currently enrolled in the program and to extend coverage to the 6 to 7 million uninsured children who are currently eligible but not enrolled in SCHIP.

- **Strengthen tax policy for children and families** by simplifying and integrating the Earned Income Tax Credit, the Child Tax Credit, and other family focused tax measures. This would make federal tax benefits more accessible to families while cutting red tape at the Internal Revenue Service.

- **Reauthorize No Child Left Behind** with increased support for the nation's high schools. This would include incentives for schools, communities, and parents to work more closely together to meet the needs of students in and outside the classroom, and a new funding stream dedicated to turning the nation's dropout factories into diploma factories.[12]

- **Expand investments in early childhood education.** Reauthorization of Head Start provides an opportunity for renewing and strengthening our commitment to investing in high-quality early childhood education programs for three-and four-year-old children. Additionally, the federal government should support nurse home-visiting programs to promote sound prenatal care and the healthy development of infants and toddlers.

Final Thoughts

As Congress and the Administration struggle to balance the budget, they must do so without placing the burden on children. There is widespread agreement that we must not leave our children and grandchildren with a crippling debt. But we must also recognize that we cannot afford to stop investing in them.

Research suggests returns of between $2 and $17 in benefits for every $1 in costs for early childhood education programs for three- and four-year old children.[13] And for maximum impact, research suggests that children need balanced investments from early childhood throughout adolescence, primarily from their families, but also from cost-effective programs that work.[14] The evidence behind investments in children is clear. Can the same be said for other areas of the federal budget?

Money alone is not the answer. Not every federal dollar is spent effectively, and more should be done to ensure that taxpayer dollars are used wisely. But the projected decline in the children's budget should be a wake up call for us to reexamine our priorities.

In the decades to come, our children and grandchildren will face complex challenges and unprecedented opportunities. It is our responsibility to ensure they are ready for both. Where there is the political will, there is a way. Together, we must make children and families the first focus of the nation, and our budget.

First Focus

First Focus is a bipartisan advocacy organization that is committed to making children and their families a priority in federal policy and budget decisions. First Focus is funded through the generous support of Atlantic Philanthropies, The David and Lucile Packard Foundation, and the Annie E. Casey Foundation. We thank the Annie E. Casey Foundation for their leadership and support of this project.

Endnotes

1 Unless otherwise noted, the source for data in this brief is Carasso, Adam, C. Eugene Steuerle, and Gillian Reynolds (2007). *Kids' Share 2007: How Children Fare in the Federal Budget*. Washington, DC: The Urban Institute. This study analyzes the impact of the President's proposed 2008 budget, with projections for spending on children to 2017. The report does not assess the effectiveness of federal expenditures on children – a very important topic – but it tells us how much we are spending, in what areas, and how spending on children is likely to fare in the coming years.

2 Children's spending includes tax expenditures such as the Child Tax Credit, the Earned Income Tax Credit and the dependent care exemption; such expenditures accounted for about one-third of total spending on children in 2006. Federal domestic expenditures include all expenditures of the federal government other than defense and international affairs.

3 In this brief, the spending trends for Social Security, Medicare, and Medicaid are limited to the adult portions (e.g., elderly, disabled, or indigent enrollees) and do not include child-related spending such as survivors benefits and the child portion of Medicaid.

4 Unpublished data underlying *Kids' Share 2007: How Children Fare in the Federal Budget*.

5 The Urban Institute's projections are based on the Office of Management and Budget's *Budget of the U.S. Government, Fiscal Year 2008*, the Congressional Budget Office's *Budget and Economic Outlook, Fiscal Years 2008 to 2017*, and the Department of Treasury's *General Explanation of the Administration's FY 2008 Revenue Proposals.* Note that these projections assume permanent extension of the 2001-2006 tax cuts.

6 When considering the sufficiency of federal spending on children, it is important to recognize that children benefit from investments by states and localities as well. According to a forthcoming report by the Rockefeller Institute of Government, state and local spending totaled about $5,800 per child in 2003, primarily spent on public schools. For more on state and local spending see the forthcoming Nelson A. Rockefeller Institute of Government report, *State Funding for Children: Spending in 2003 and How It Changed From Earlier Years* by Patricia Billen and Donald Boyd.

7 U.S. Census Bureau (2006). *Income, Poverty, and Health Insurance Coverage in the United States: 2005*. U.S. Census Bureau, Current Population Reports, P60-231. Washington, DC: U.S. Government Printing Office, p. 25. Available online at: http://www.census.gov/prod/2006pubs/p60-231.pdf.

8 National Center for Education Statistics, 2006. *The Nation's Report*


Card: Reading 2005. (NCES 2006-451), p. 14. Available on-line at http://nces.ed.gov/nationsreportcard/pdf/main2005/2006451.pdf.

9 An estimated 25 to 30 percent of ninth graders fail to receive a regular high school diploma four years later, with high dropout rates again concentrated among poor and minority populations. For more on graduation rates, see U.S. Department of Education (2006). *The Averaged Freshman Graduation Rate for Public High Schools from the Common Core of Data*. NCES 2006-601. Washington, DC: National Center for Education Statistics. Available on-line at http://nces.ed.gov. See also "Diplomas Count: An Essential Guide to Graduation Policy and Rates," *Education Week*, June 22, 2006. For more on gaps in school readiness, see the Spring 2005 volume of *The Future of Children* (Vol. 15, No. 1), *School Readiness: Closing Racial and Ethnic Gaps*.

10 U.S. Census Bureau, op. cit. Child poverty rates are also significantly higher than poverty rates for other ages under an adjusted poverty measure that takes into account the impact of food stamps and other non-cash benefits as well as the Earned Income Tax Credit; child poverty rates were 13.1 percent in 2004, the last year data are available, compared to 6.8 percent for the elderly (*Kids' Share 2007: How Children Fare in the Federal Budget*).

11 UNICEF (2007). *Child Poverty in Perspective: An Overview of Child Well-Being in Rich Countries 2007*, *Innocenti Report Card* 7. Florence: UNICEF Innocenti Research Centre, pp. 4-11. The poverty measure referred to by UNICEF is "relative poverty," that is, the percentage of children "living in a household where the equivalent income is less than 50 percent of the national median." The broader measure of "material well-being" includes relative income poverty, households without jobs, and reported deprivation.

12 For additional information on the nation's dropout crisis, see Balfanz, Robert and Nettie E. Legters (2004). Locating the Dropout Crisis: Which High Schools Produce the Nation's Dropouts? in *Dropouts in America*. Edited by Gary Orfield. Cambridge, MA: Harvard University Press, pp. 57-84.

13 Isaacs, Julia (2007). *Cost-Effective Investments in Children*. Washington, DC: The Brookings Institution, p. 4. Available on-line at http://www.brookings.edu/views/papers/200701isaacs.pdf.

14 America's Promise – The Alliance for Youth (2006). *Every Child, Every Promise: Turning Failure Into Action.* Alexandria, VA: America's Promise – The Alliance for Youth, pp. 45-52. Available on-line at www.americaspromise.org.

FIRST FOCUS

MAKING CHILDREN & FAMILIES THE PRIORITY

909 North Washington Street
4th Floor
Alexandria, VA 22314
T: 703 535-3885
F: 703 535-3904
www.FirstFocus.net