KIDS' SHARE 2012

REPORT ON FEDERAL EXPENDITURES ON CHILDREN THROUGH 2011

JULIA ISAACS
KATHERINE TORAN
HEATHER HAHN
KARINA FORTUNY
C. EUGENE STEUERLE

URBAN INSTITUTE

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Executive Summary

Federal spending on children fell by $2 billion in 2011, the first such decline in nearly 30 years. Spending is expected to decline further in 2012, as funds provided under the American Recovery and Reinvestment Act of 2009 (ARRA) are nearly exhausted. States and localities, which provide two-thirds of all public spending on children, will be hard-strapped to fill the breach caused by the drop in federal funding. An ongoing imbalance between spending (scheduled to grow steadily in programs that largely exclude children) and revenues (which fall far short of actual spending levels) maintains the squeeze on federal spending on children over the next decade. Continuation along this path shows spending on children declining in the future, particularly when measured as a share of the federal budget or a share of the economy.

This sixth annual *Kids' Share* report examines federal expenditures on children in 2011, when the temporary boost in federal funding to address the recession was dwindling, yet states and families were still struggling to recover from the recession. This report provides in-depth analysis of dozens of federal programs and tax provisions that allocate resources to children and places these expenditures in the broader context of the overall federal budget. The report is organized into three major sections: current expenditures, historical trends, and future projections. While the primary focus is federal expenditures, including direct spending from federal programs (outlays) and reductions in taxes (tax expenditures), the current expenditures section also provides information about state and local spending on children.

Current Expenditures on Children

Analysis of 2011 data, the most recent year for which complete federal data are available, reveal the following:

- **Federal outlays on children fell by $2 billion**, from $378 billion in 2010 to $376 billion in 2011 (all figures are in inflation-adjusted 2011 dollars). This is the first time spending on children has fallen since the early 1980s. Tax expenditures such as the Child Tax Credit (CTC), along with the dependent exemption, also fell in aggregate, from $72 to $69 billion. Combined, total expenditures fell by $5 billion, from $450 to $445 billion.

- While the federal government spent less on children, total federal spending increased, from $3.52 to $3.60 trillion. As a result, **the share of the federal budget allocated to children fell from 10.7 to 10.4 percent**. Spending on children also fell when measured as a share of total economic output, from 2.6 percent to 2.5 percent of gross domestic product (GDP). That is, spending on children fell from 2010 to 2011, whether measured in real dollars, as a share of total federal outlays, or as a share of GDP.

- **Ten programs and tax provisions account for three-quarters (75 percent) of the $445 billion in expenditures on children.** Medicaid alone spent an estimated $74 billion on children in 2011, more than any other program. Children account for about one-quarter of all Medicaid spending. After Medicaid, the largest sources of expenditures on children are the Earned Income Tax Credit (EITC, $52 billion), the Child Tax Credit ($46 billion), the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps, $37 billion), and the dependent exemption ($35 billion). Other programs providing large amounts of expenditures on children include Social Security survivors' and dependent benefits, Title I/Education for the Disadvantaged, Child Nutrition, Special Education, and the Temporary Assistance for Needy Families (TANF) program.

- **Federal spending on education was $5 billion lower in 2011 than in 2010,** a drop equivalent to the total decline in outlays and tax expenditures. An $8 billion drop in support to K–12 education through the ARRA-funded State Fiscal Stabilization Fund and declines in other education programs were only partially offset by an increase in spending from the temporary Jobs for Education fund. Expenditures also fell in the areas of health, social services, training and tax provisions, but they rose in nutrition (due to more families receiving SNAP benefits) and income security (driven by an increase in SSI payments to disabled children and veterans' survivors and dependent benefits).

While the federal government spent less on children, total federal spending increased, from $3.52 to $3.60 trillion.

Children's spending in 2011 continues to benefit from the temporary increase in federal funding under the American Recovery and Reinvestment Act of 2009. ARRA accounted for an estimated $42 billion of the $445 billion, or nearly 10 percent, of children-focused federal expenditures, and this spending is projected to fall dramatically next year (from $42 to $12 billion). As a result, **total federal expenditures on children are projected to fall from $445 to $428 billion, or 4 percent, between 2011 and 2012.** The drop in ARRA funding will have a particularly dramatic effect on K–12 education spending, even more so if these declines are combined with any simultaneous reductions in state and local spending.

State and local budgets, which in the past have contributed as much as two-thirds of total spending on children, have been hard hit by the recession. **We estimate that state and local spending per child fell between 2008 and 2011.**

While we do not have complete state and local data for the recession years, the data we have compiled indicate that the ARRA increases in federal spending were barely enough to compensate for decreased state spending during the recession. In other words, **overall public spending per child showed no strong upward or downward trend between 2008 and 2011,** but was more or less flat, after adjusting for inflation. Our estimates indicate that total education spending across all levels of government declined somewhat between 2008 and 2011, while total child health spending increased modestly.

In 2012, federal funding on children is projected to decline significantly. State funding is uncertain, but with states still recovering from the recession, it will be challenging for them to fill the gap caused by the drop in federal funding. As a result, there may be cutbacks in services and benefits for children in 2012.

Historical Trends in Federal Spending, 1960 to 2011

During the past half-century, the size and composition of expenditures on children has changed considerably. Children's health programs and child-related tax credits have grown, while support through the dependent exemption and income security programs has declined. Back in 1960, the largest federal contributions to families with children came from the dependent exemption, Social Security, Aid to Families with Dependent Children (now called Temporary Assistance for Needy Families), and education. Fifty years later, the dependent exemption has much less relative value, and Medicaid, the Earned Income Tax Credit, and the Child Tax Credit have become the three largest sources of federal expenditures on children.

In recent years, children's spending has represented about 10 percent of total federal outlays, a considerable increase from its share in 1960, or even 1990. In general, the children's share of budget outlays has grown, though by fits and starts, over the past half-century. **The 10 percent spent on children compares to 41 percent spent on the elderly and disabled portions of Social Security, Medicare, and Medicaid; 20 percent on defense; 6 percent on interest payments on the debt; and 23 percent on all other government functions** (e.g., agriculture, commerce, the environment, transportation, veterans' benefits).

To get a sense of how spending on children ranks as a domestic priority, we calculate another measure, the kids' share of the domestic budget. This alternative measure excludes spending on defense and international affairs from the budget totals, and it broadens the concept of children's spending to include tax expenditures as well as outlays. By this measure, expenditures on children have fallen by 23 percent since 1960, from 20 to 15 percent of the domestic budget.

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The non-child portions of Social Security, Medicare, and Medicaid have grown from about one-tenth to two-fifths of the federal budget…

The share of the budget spent on defense has declined over the past 50 years. The share spent on defense fell dramatically between 1960 and 2000, from 52 to 16 percent of the budget, then increased to its current level of 20 percent in response to the wars in Iraq and Afghanistan. A second historical trend shaping current budgets is the steady increase in spending on the elderly and disabled. The non-child portions of Social Security, Medicare, and Medicaid have grown from about one-tenth to two-fifths of the federal budget over the past five decades and are projected to grow more rapidly in the next decade, representing half of all federal spending and strongly shaping future budgets. Finally, low revenues relative to total spending have significantly increased federal debt relative to a mid-1970s low, with adverse consequences for interest payments in the future.

Projections, 2012 to 2022

As the temporary boost in spending under ARRA comes to an end, federal spending on children is projected to fall. In the absence of legislative action, our projections suggest that **federal outlays on children will fall by 6 percent in 2012** and an additional 2 percent in 2013. Only once in the last half-century was there a similar decline, when real outlays on children fell by 7 percent between 1980 and 1985.

- Outlays on children are projected to drop by $24 billion in 2012. This substantial decline in outlays will be partially offset by a modest rise in the dollar value of tax expenditures for families with children, but even so, total expenditures on children are projected to fall by $17 billion in 2012.
- The areas with the largest drops in ARRA funding are education (loss of $13 billion, primarily in the State Fiscal Stabilization Fund, Special Education, and Title I/Education for the Disadvantaged), and refundable tax credits (loss of $9 billion in the EITC and CTC). While Congress enacted further temporary expansions in these two areas to partially offset the loss in ARRA funding, the net effect is still a $17 billion decline in total expenditures, from $445 billion in 2011 to $428 billion in 2012.

Ten-year projections, while much more uncertain than one- or two-year projections, show that the downward trend is not a temporary phenomenon. Following the same assumptions as the

Congressional Budget Office's baseline projections—continuation of current law, including the caps on discretionary spending and automatic spending reductions under the Budget Control Act of 2011 (BCA) and implementation of the Affordable Care Act—our projections of children's spending in the future suggest the following, absent policy change:

- Over the next 10 years, **federal outlays on children will fall as a percentage of the budget (from 10 to 8 percent);** federal spending is projected to increase by nearly $1 trillion, but children's spending remains essentially unchanged in absolute dollars.
- Children's spending also drops as a share of the economy, from 2.5 to 1.9 percent of GDP. **The percentage of the economy allocated to federal investments in children will drop below pre-recession levels,** lower than in any year since 2002.
- **The largest drops expected over the next decade are in education,** which drops sharply in 2012 as ARRA funds are exhausted, and then is further reduced in 2013 due to the discretionary caps under the Budget Control Act. Early care and education, social services, housing, and training also are affected by the caps on and cuts to discretionary spending.
- Health spending on children is the one area with growth over the next decade, due to continued high growth in economy-wide health care costs, along with expanded coverage under Medicaid and the introduction of the health insurance exchanges under the Affordable Care Act.

Health and retirement spending on the elderly and disabled populations is projected to grow more rapidly than health spending on children. **The non-child portions of Social Security, Medicare, and Medicaid are projected to consume more than half (51 percent) of all federal outlays by 2022, representing more than one-tenth of the nation's economic output.** The strong growth in the three big entitlement programs, Medicare, Medicaid, and Social Security, places upward pressure on total governmental outlays, which far outpace federal revenues in every year of the projection period, even after the spending constraints introduced by the Budget Control Act. This spending growth stems from several factors, including growth in level of benefits per elderly person (due to steadily rising health care costs and Social Security benefits) and an increase in the share of the population that becomes eligible for elderly benefits. Since these programs are mandatory, they automatically grow unabated unless current law is changed.

Meanwhile, revenues continue to underfund programs, so that as spending continues to outpace revenues, interest payments on the growing national debt are expected to rise from 1.5 to 2.5 percent of GDP by 2022. In fact**, under current policies, the federal government is projected to spend more on interest payments than on children, beginning in 2017.** Interest payments on the debt would exceed investments in children even earlier (as, indeed, was projected in last year's *Kids' Share* report), except that interest rates are projected to be extremely low over the next few years.

The Budget Control Act plays a small role in contributing to the projected decline in spending on children over the next decade. While education, children's housing benefits, youth training, and many early care and education programs receive an additional 10 percent cut from the BCA, three-quarters of the children's budget is exempt from its provisions, so **children's spending as a whole is cut about 2 percent as a result of the BCA.** The percentage reduction in total federal outlays under this budget law is larger—roughly 4 percent—because of projected cuts in defense spending. As a result, while the Budget Control Act reduces children's spending in real dollars, it results in a slight increase in children's spending as a *share* of total outlays (from 8.2 to 8.4 percent). In summary, the particular budget controls in this law spare children's programs from deep cuts, but they do not change the downward path of children's spending relative to the overall budget or the total economy: children's spending is projected to fall to 1.9 percent of GDP in 2022 with or without implementation of the BCA.

One implication of our analysis of the BCA is that **the design of various proposals to reform the budget will greatly affect children**. Other grand budgetary packages may have a larger impact on children, depending on specifics. Critical details include which types and broad categories of spending are cut most heavily (e.g., defense or non-defense, mandatory or discretionary), which programs are exempted from cuts (e.g., retirement programs and/or low-income programs), and whether changes in revenues are part of the deficit-reduction package.

Because investing in children remains essential for improving economic stability and growth, any plans to curtail spending, increase taxes, or redesign programs to be more efficient should give attention to the long-term consequences for children—the next generation of leaders, workers, parents, and citizens.

Introduction

The federal government faces many competing priorities in the allocation of federal resources. In the heat of budget battles, children, the poorest age group, are often overlooked. Yet, the federal government—as well as state and local governments—provides critical investments in the health, education, nutrition, safety, and overall development of children. The federal government partners with state and local governments to provide services to children (e.g., a public education system, child protective services) and benefits that support parents in their role as primary caregivers of children (e.g., tax credits directed toward families with children, survivors' and dependent benefits under Social Security, housing benefits). Directing public resources toward children represents an important investment in the country's future.

To monitor the government's investment in children, the Urban Institute has developed a database of federal expenditures on children across dozens of federal programs and tax provisions and has published a series of children's budget reports.[1] This sixth annual *Kids' Share* report provides updated analysis of federal expenditures on children through 2011, the latest year for which complete federal data are available. It also updates projections of children's spending through 2022, to provide a sense of how budget priorities may unfold, absent changes to current law.

The primary focus of the report is 2011, when children and families were struggling to recover from the lingering effects of the recession. While unemployment dropped in the past year, it remained stubbornly high, averaging 9.2 percent during federal fiscal year 2011 (which runs from October 2010 to September 2011). Child poverty also remained high, at 22 percent, or more than one in five children, in 2010, the last year for which data are available. Child poverty is likely to be even higher in 2011 judging from the ongoing increase in the number of families applying for nutrition assistance; one in four American children were receiving SNAP or food stamp benefits in spring 2011 (Isaacs 2011). In short, despite the small improvement in the employment situation, economic conditions remained stark in 2011 for many families with children.

States also continue to be affected by the recession, which caused the largest decline in state revenues on record. State revenues began to recover in 2011, but they remained below pre-recession 2008 levels, and many states continued to face large budget shortfalls (McNichol, Oliff, and Johnson 2012).

The country's ongoing struggle to recover from the recession provides important context for considering the level of federal expenditures on children in 2011. It is beyond the scope of these *Kids' Share* reports, however, to directly compare spending amounts to levels of need, or to quantify the amount of unmet need that may exist. Nor does this series of children's budget reports analyze the efficiency, success, or worth of a particular program or spending level. Instead, this report compiles spending data on programs scattered across many federal agencies and estimates the children's share of spending for these programs, to develop a comprehensive estimate of spending and tax expenditures on children from 1960 through the present.

The report begins with a discussion of methods, and then presents its findings in three major sections: present, past, and future. The first set of findings conveys the most current information on federal spending on children, and also sets federal spending in the context of total (federal/state/local) public spending on children. Next, a historical section traces patterns of federal spending on children and other major items in the federal budget over more than 50 years. The final set of findings projects future federal spending on children, with and without the budget enforcement provisions of the Budget Control Act of 2011 (BCA).

Methods

Estimating the children's share of public expenditures requires collecting data from multiple sources and making many assumptions and judgment calls. The first task is to select programs for inclusion. Only programs directly benefiting children or benefiting households because of the presence of children are included. Second, expenditure data are collected for each program, using outlay estimates from the *Appendix to the Budget of the U.S. Government, Fiscal Year 2013* (and past years) as the primary source. Many analyses also include information on tax expenditures, gathered from the *Analytical Perspectives* volume of the budget. Finally, significant efforts are put into estimating the portions of programs that go specifically to children. Each of these three tasks is described below, and further methodological details are provided in the companion publication to this report, *Data Appendix to Kids' Share 2012*.[2]

Defining and Identifying Programs Benefiting Children

Defining spending on children raises broad conceptual questions. When does childhood begin, and when does it end? What is spending on children compared with spending on their parents or the general population? Should expenditures include reductions in taxes as well as direct spending programs? Reasonable people may provide different answers to these questions.

In this analysis, childhood is generally defined as extending from birth until a child's 19th birthday. As a result, both federal spending on college or postsecondary vocational training and prenatal spending through Medicaid or other programs are excluded (the latter largely because of data limitations). While the general rule is to include 18-year olds, they are excluded from certain programs that define childhood as ending on a child's 18th birthday, as detailed in the data appendix.

To be included in this analysis (as a whole or in part), a program must meet at least one of the following criteria:

1. benefits or services are entirely for children (e.g., elementary and secondary education programs, foster care payments); this also includes programs where a portion provides benefits directly for children (e.g., Supplemental Security Income (SSI) payments for disabled children, Medicaid services for children);

2. family benefit levels increase when children are included in the application for the benefit (e.g., Supplemental Nutrition Assistance Program (SNAP)/food stamps, low-rent public housing); or

3. children are necessary for a family to qualify for any benefits (e.g., Temporary Assistance for Needy Families (TANF), the Child Tax Credit (CTC), the dependent exemption).

Not all programs that provide benefits to families are included under our definition of spending on children. Excluded, for example, are unemployment compensation, tax benefits for home ownership, and other benefits where the amount of the benefit the adult receives is not related to presence or number of children.[3] Further, this analysis does not include programs that provide benefits to the population at large, such as roads, communications, national parks, and environmental protection.

In reporting expenditures on children, several key measures focus on federal *outlays* on children (e.g., the share of the federal budget spent on children, federal vs. state/local spending on children, and children vs. elderly outlays). However, our most comprehensive measure of federal expenditures on children includes *tax expenditures* (i.e., reduced tax liabilities as a result

of the Child Tax Credit, the dependent exemption, or other provisions in the tax code) as well as direct program outlays. Throughout the report, we note clearly where our analysis focuses on outlays only and where it broadens to include reductions in taxes. Even when the analysis is restricted to outlays, however, it includes the direct outlays related to the tax law, chiefly the portions of the Earned Income Tax Credit and Child Tax Credit that are paid out to families as a tax refund, rather than a reduction in tax liability. Note that this last division is undertaken to achieve consistency with budget accounting that divides tax subsidies between outlays for the refundable portion and tax expenditures for the nonrefundable portion.

Collecting Expenditure Data

We rely on reported outlays from the *Appendix to the Budget of the U.S. Government, Fiscal Year 2013* (and past years) as the primary source for expenditure data for programs included in this analysis. For estimated expenditures from tax provisions, we turn to the *Analytical Perspectives* volume of the budget. For smaller programs not listed in the appendix, we obtain expenditure information from budgetary documents on agency web sites or directly from representatives at various government agencies. All budget numbers presented in this report represent federal fiscal years and are expressed in 2011 dollars, unless otherwise noted.

Calculating the Share of Program Spending on Children

Some programs devote all their resources to children, while other programs allocate funds to children as well as older age groups. As a result, we calculate the share of program resources dedicated to children in one of the following ways:

- For programs that serve children only, we assume 100 percent of program expenditures (benefits and associated administrative costs) go to children.
- For programs that provide direct services to children and adults (e.g., Medicaid), we calculate the percentage of program expenditures that go to children.
- For programs that provide benefits only to families with children, and if the benefit size is determined by the number of children, we assume 100 percent of program expenditures go to children (e.g., Child Tax Credit, dependent exemption).
- For other programs where benefits are provided to families without any delineation of parents' and children's shares, we generally estimate a children's share based on the number of children and adults in the family and assuming equal benefits per capita within the family (e.g., TANF, SNAP, housing).

We put significant effort into estimating the portions of large programs, such as SNAP, Medicaid, or SSI, that go just to children. For these calculations, the most frequently used data sources are unpublished tabulations of survey and administrative data generated by the authors or other researchers at the Urban Institute (including tabulations generated by the Transfer Income Model) and reports from the agencies that administer the programs. In some cases, we scour government web sites or contact federal agency staff directly to obtain program participation information. Further information is provided in the data appendix.

Methods for State and Local Estimates

While *Kids' Share* focuses primarily on federal expenditures on children, the report includes estimates of state and local spending on children for the 13 years between 1998 and 2011. Estimates for 1998–2008 are taken from Rockefeller Institute State Funding Database (described in Billen et al. 2007). Aggregate state and local spending estimates for 2009–11 were generated by the authors, using estimates of spending on state education and health from various sources and a range of assumptions about possible growth in local education spending (the major piece of state and local spending that is missing for 2010 and 2011). Our lower-bound projection assumed local education spending dropped twice as much as state education spending over those two years, while our upper-bound projection assumed local spending increased to offset the drop in state spending. We present a possible spending scenario between these extremes in our findings, and we discuss the sensitivity of the findings to alternate assumptions about local spending on education.

Consultations between the authors of this report and researchers at the Rockefeller Institute have increased consistency between the two sets of estimates. However, differences remain.[4]

Methods for Projections

To assess trends of spending on children in the future, we turn primarily to the Congressional Budget Office's projections (specifically, projections in the *Budget and Economic Outlook, Fiscal Years 2012–2022,* updated in March 2012). For projecting expenditures under tax provisions, we turn to the Urban-Brookings Tax Policy Center Microsimulation Model for major tax provisions and the Office of Management and Budget's projections in *Analytical Perspectives* for smaller tax provisions.

With a few exceptions, most notably the extension of certain tax provisions that are set to expire at the end of 2012, the baseline projections assume current law as of January 2012. This means that our baseline projections incorporate the spending caps and automatic spending reductions established by the Budget Control Act of 2011 (BCA) and assume full implementation of the Patient Protection and Affordable Care Act of 2010 (ACA). Our baseline projections do *not* incorporate budget resolutions adopted in spring 2012, proposals to replace the BCA with another deficit reduction policy, changes in the ACA, or any other legislative proposals or judicial actions.

The projection methodology differs depending on whether a program is mandatory (with spending governed by programmatic rules, such as Medicaid or Social Security), discretionary (with spending set by appropriations action annually and overall spending subject to the BCA caps), or a tax expenditure. In the mandatory spending area, the Congressional Budget Office (CBO) baseline projections assume a continuation of current law, except that certain expiring programs that have been continually reauthorized in the past are assumed to continue. The mandatory spending projections assume automatic spending reductions of certain budgetary resources in 2013–21 under the BCA. These reductions, however, have a nominal effect, because most mandatory programs (including those serving children) are exempt from the BCA spending reductions.

For discretionary spending other than the one-time American Recovery and Reinvestment Act of 2009 (ARRA) funds, the traditional CBO baseline assumption is that spending is kept constant in real terms—that is, spending is adjusted upward for inflation but does not include increases for growth in population or gross domestic product (GDP). Under the Budget Control Act, however, the traditional CBO baseline is adjusted downward to reflect the caps on defense and non-defense spending, as well as an additional sequestration of resources scheduled in January 2013. Our baseline projections assume the cuts required by the BCA spending caps are applied equally to all discretionary programs, while recognizing that Congress will use its judgment in deciding how much to fund each program and stay within the overall spending targets.

Expenditures for the four largest tax provisions—the dependent exemption, the Child Tax Credit, the Earned Income Tax Credit, and the Child and Dependent Care Credit—come from 10-year projections from the Urban-Brookings Tax Policy Center Microsimulation Model. Our tax expenditure projections differ from the strict CBO baseline: we follow current policy assumptions, which assume an extension of the individual income tax provisions originally included in the 2001 and 2003 tax bills (as detailed in the methodological appendix). For all other, smaller tax provisions, we use the five-year projections provided in the *Analytical Perspectives* and then apply the average growth rate of these projections to the following five years.

In general, we assume that the children's share of spending within each program will remain constant from 2011 to 2022. In the case of Medicaid, Social Security, and SSI, we are able to use detailed CBO baseline projections, which project program outlays separately for children and other categories of beneficiaries. Because our future projections are rough, we generally do not provide program-specific projections but limit ourselves to broad statements about children's spending in budget function categories (health, education) or spending on children as a whole.

Changes in Methods in This Year's Report

One new challenge this year was developing a methodology for applying the spending restrictions in the Budget Control Act to children's programs. To do this, we studied CBO's estimates of the BCA's impact on its aggregate baseline projections for both mandatory and discretionary programs, studied the list of exempt programs in the U.S. Code, and consulted with CBO staff. We ended up developing two sets of projections: a baseline projection under current law, with the caps and automatic spending reductions required under the BCA, and an alternate projection of spending in the absence of the BCA.

We also developed new methods for doing short-term projections of state and local spending through 2011, as noted above. In addition, two new health programs, authorized in 2010 under the Affordable Care Act, had sufficient outlays in 2011 to be added to the database on federal expenditures on children. These two new programs are Maternal, Infant and Early Childhood Home Visiting and School-Based Health Care Centers. (Though it has no outlays in 2010 or 2011, we do include a rough estimate of the projected costs for the new health insurance exchanges in our future projections, as was done in last year's report).

Current Expenditures on Children

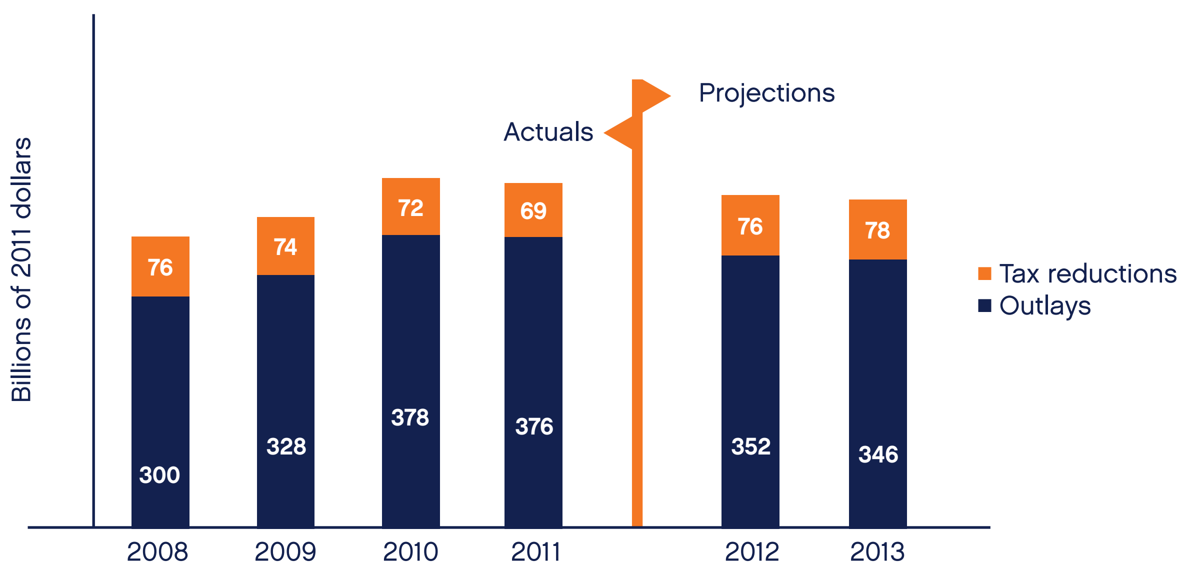
We begin by presenting our findings for 2011, the most recent year for which complete federal spending data are available. In addition to reporting total federal expenditures on children, we present spending by program and broad category, and provide estimates of the lingering effects of the American Recovery and Reinvestment Act of 2009 (ARRA). We then report on state and local expenditures, using available data to try to determine whether the recent temporary federal increases have compensated for state and local declines in expenditures on children.

Federal Expenditures on Children in 2011, in the Aggregate

. . . this is the first time since the early 1980s that outlays on children have fallen.

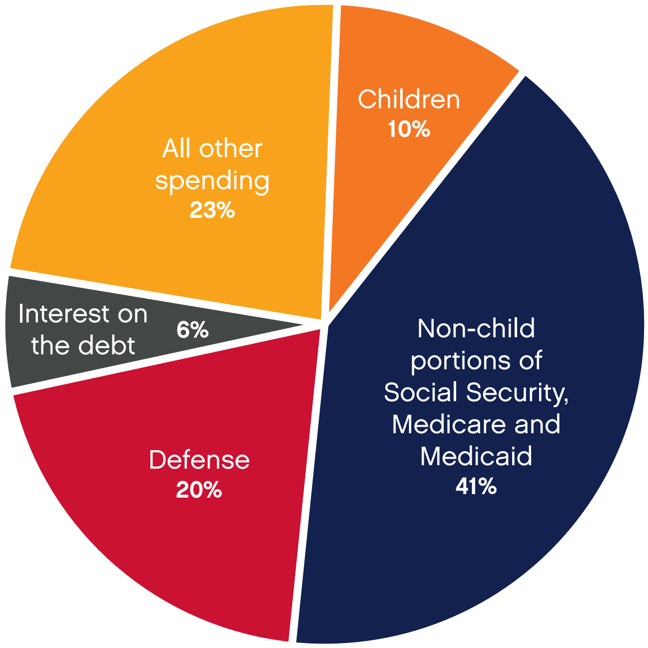
Federal outlays on children fell from $378 billion in 2010 to $376 billion in 2011 (all figures are in inflation-adjusted 2011 dollars). While this $2 billion decline is small in percentage terms (less than 1 percent), this is the first time since the early 1980s that outlays on children have fallen. Moreover, a further decline of $24 billion, or 6 percent, is expected in 2012 (see figure 1). As will be discussed further below, the largest declines are in education and other programs receiving a temporary boost of funding under ARRA.

Figure 1 Federal Outlays and Tax Expenditures on Children in Fiscal Years 2008–13



Source: The Urban Institute, 2012. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2013* and previous years and CBO projections.

FIGURE 2 Share of Federal Budget Outlays Spent on Children and Other Items, 2011



Source: The Urban Institute, 2012. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2013.*

Note: Social Security, Medicare, and Medicaid category excludes spending already captured as children's spending.

While the federal government spent less on children, total federal spending increased, from $3.52 to $3.60 trillion. As a result, the share of the federal budget spent on children fell from 10.7 to 10.4 percent between 2010 and 2011. The remainder of the budget was divided as follows: 41 percent of the federal budget, or nearly $1.5 trillion, was spent on the elderly and disabled portions of Social Security, Medicare, and Medicaid; 20 percent was spent on defense; 6 percent was spent on interest payments on the debt; and 23 percent was spent on all other government functions (see figure 2).

Outlays on children as a percentage of total federal outlays is our first definition of the "kids' share" of the federal budget. For consistency with the government's measure of total outlays, our measure of children's outlays includes not only spending from Medicaid, Child Nutrition, Special Education, and dozens of other federal programs, but also the outlay portion of tax provisions, chiefly the refundable portions of the EITC and the CTC.

Another way of looking at the children's share of federal expenditures is to examine tax breaks to families with children provided through the dependent exemption, the non-refunded portions of tax credits, and other tax provisions. Tax expenditures on children, including the value of the dependent exemption, totaled $69 billion in 2011, down from $72 billion in 2010. Tax expenditures on children represented only about 6 percent of the approximately $1.1 trillion in individual and corporate tax expenditures identified by the Office of Management and Budget (OMB) in 2011.[5] Although these measures are not strictly additive because of different computation methods, summing the $376 billion in outlays and $69 billion in tax

6%

Tax expenditures on children represented only about 6 percent of the approximately $1.1 trillion in individual and corporate tax expenditures identified by the Office of Management and Budget (OMB) in 2011.

10%

…federal expenditures on children in 2011 are approximately 10 percent of total federal expenditures.

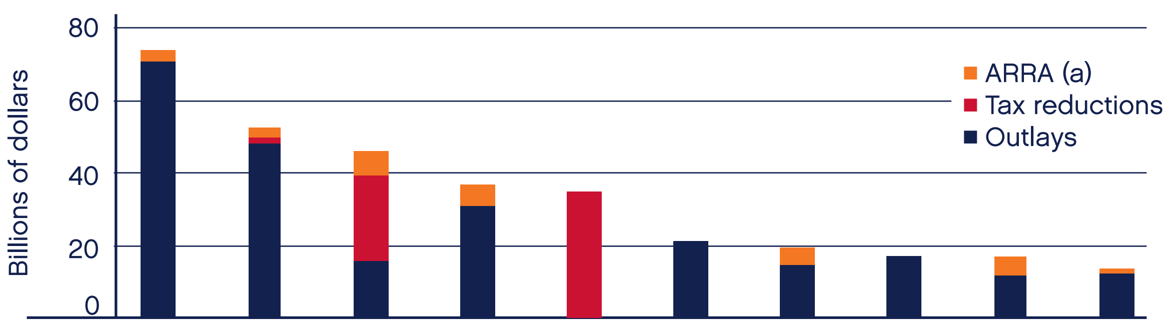
reductions results in a total of $445 billion in expenditures on children. When total federal outlays and total tax expenditures are added similarly, federal expenditures on children in 2011 are approximately 10 percent of total federal expenditures.

Yet another measure of the "kids' share" is federal spending on children as a share of the total economy (GDP). Under this measure, too, the kids' share dropped last year: outlays on children fell from 2.6 to 2.5 percent of GDP, and total expenditures on children, including tax expenditures, dropped from 3.1 to 3.0 percent of GDP. Under each of these various measures, children's spending declined last year.

Federal Expenditures on Children, by Program and Category

Dozens of programs and tax provisions are included in the $445 billion in expenditures, as detailed in table 1, which shows all expenditures on children in both 2010 and 2011, by program and major category. The table includes estimates of ARRA spending in both years, based on the authors' analysis of unpublished data from the Congressional Budget Office. Highlights from table 1 are presented in the next two figures, which show spending on the 10 largest programs (figure 3) and across nine broad categories of spending (figure 4).

Figure 3 The Ten Largest Spending and Tax Programs by Expenditures on Children in Fiscal Year 2011



	Medicaid	EITC	Child tax credit	SNAP (food stamps)	Dep. exempt.	Social Security	Title I	Child nutrition	Special ed.	TANF
ARRA (a)	3.1	2.7	6.8	5.8			4.7		5.2	1.3
Tax Reductions		0.9	23.4		34.9					
Outlays	70.7	48.9	15.9	31.0		21.3	14.8	17.2	11.9	12.4

Source: The Urban Institute, 2012. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2013* and unpublished tabulations from the Congressional Budget Office.

a. ARRA primarily affects outlays, but it has a small impact on tax reductions, as detailed in table 1.

Together, the 10 largest programs and tax provisions account for three-quarters (75 percent) of all expenditures on children in 2011. Medicaid, which spent $74 billion on children in 2011, or about one-quarter of all Medicaid spending, was the single largest "children's program" in the federal budget (see figure 3). Federal spending on Medicaid services for children fell by $1.6 billion in 2011 because the federal match rate declined from the enhanced rate provided under ARRA.[6] These Medicaid figures do not include the Children's Health Insurance Program (CHIP), which spent $8 billion on children in 2011.

Table 1 Effects of the American Recovery and Reinvestment Act (ARRA) on Expenditures on Children in 2010 and 2011, by Major Category and Major Program (billions of 2011 dollars)

	Total (Including ARRA)			ARRA		
	2010	2011	Change	2010	2011	Change
1. Health	**$88.8**	**$87.9**	**-$0.9**	**$11.0**	**3.2**	**-$7.8**
Medicaid	75.5	73.9	-1.6	10.8	3.1	-7.7
CHIP	7.6	8.3	0.7	-	-	-
Vaccines for children	3.6	3.7	0.1	-	-	-
Other health[a]	2.2	2.1	-0.1	0.2	0.1	-0.1
2. Income Security	**52.2**	**53.1**	**0.9**	**3.2**	**1.3**	**-1.9**
Social Security	20.4	21.3	1.0	-	-	-
Temporary Assistance for Needy Families	15.0	13.7	-1.3	2.0	1.3	-0.8
Supplemental Security Income	10.0	11.0	1.0	-	-	-
Child support enforcement	4.0	3.7	-0.3	1.2	-	-1.2
Veterans' benefits	2.8	3.4	0.6	-	-	-
Other (Railroad Retirement)	+	+	+	-	-	-
3. Education	**69.5**	**64.1**	**-5.4**	**27.2**	**19.3**	**-7.9**
Education for the disadvantaged (Title I, Part A)	19.9	19.5	-0.4	4.4	4.7	0.3
Special education	17.6	17.1	-0.6	5.4	5.2	-0.2
State Fiscal Stabilization Fund	17.1	8.9	-8.1	17.1	8.9	-8.1
School improvement	5.4	5.4	+	0.3	0.3	0.1
Education Jobs Fund	1.3	5.1	3.8	-	-	-
Impact Aid	1.2	1.3	0.1	+	+	+
Dependents' schools abroad	1.2	1.2	+	-	-	-
Innovation and improvement	1.0	1.0	+	+	+	+
Other education[b]	4.7	4.5	-0.3	+	+	+
4. Nutrition	**55.4**	**59.9**	**4.5**	**5.4**	**5.8**	**0.4**
SNAP	32.9	36.7	3.8	5.3	5.8	0.4
Child nutrition	16.7	17.2	0.5	0.1	-	-0.1
Special Sup. for Women, Infants & Children (WIC)	5.8	6.0	0.2	+	+	+
Other nutrition (CSFP)	+	+	+	-	-	-
5. Early Education and Care	**14.1**	**14.5**	**0.3**	**2.0**	**1.6**	**-0.4**
Head Start and Early Head Start	8.2	8.4	0.2	0.8	1.0	0.2
Child Care and Development Fund	6.0	6.1	0.1	1.2	0.6	-0.6
6. Social Services	**10.5**	**9.8**	**-0.7**	**0.8**	**0.2**	**-0.6**
Foster care	4.5	4.4	-0.2	0.5	0.1	-0.4
Adoption assistance	2.4	2.3	-0.1	++	++	++
Social Services Block Grant	1.1	0.9	-0.2	-	-	-
Other social services[c]	2.4	2.2	-0.3	0.3	0.1	-0.2
7. Housing	**9.7**	**9.8**	**+**	**0.2**	**0.0**	**-0.2**
Section 8 Low-Income Housing Assistance	7.3	7.3	0.1	0.2	-	-0.2
Low-rent public housing	1.2	1.2	+	-	-	-
Low Income Home Energy Assistance	1.1	1.1	+	-	-	-
Other housing[d]	0.1	0.1	+	-	-	-
8. Training[e]	**1.6**	**1.5**	**-0.2**	**0.6**	**0.1**	**-0.5**
9. Refundable Portions of Tax Credits	**76.1**	**75.7**	**-0.4**	**12.3**	**9.7**	**-2.7**
Child Tax credit	23.1	22.7	-0.4	8.7	6.8	-1.9
Earned Income tax credit	51.5	51.4	-0.1	3.2	2.4	-0.7
Adoption credit and exclusion (refundable portion)	1.0	1.2	0.2	-	-	-
Other outlays associated with tax provisions[f]	0.5	0.4	+	0.5	0.4	+
10. Tax Expenditures	**36.1**	**33.5**	**-2.6**	**0.4**	**0.5**	**0.1**
Child Tax Credit (nonrefundable portion)	23.5	23.4	-0.1	-	-	-
Earned Income Tax Credit (nonrefundable portion)	4.6	1.1	-3.5	0.3	0.2	-0.1
Dependent care credit	3.4	4.1	0.6	-	-	-
Other tax credits/exemptions[g]	4.5	4.9	0.4	0.1	0.2	0.2
11. Dependent Exemption	**35.9**	**34.9**	**-1.1**	**-**	**-**	**-**
TOTAL EXPENDITURES ON CHILDREN	**450.1**	**444.8**	**-5.4**	**63.1**	**41.5**	**-21.6**
OUTLAYS SUBTOTAL (1–9)	**378.0**	**376.2**	**-1.8**	**62.7**	**41.1**	**-21.6**
TAX EXPENDITURES SUBTOTAL (10–11)	**72.0**	**68.3**	**-3.7**	**0.4**	**0.5**	**0.1**

Source: The Urban Institute, 2012. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2013* and tabulations provided by the Congressional Budget Office.

Notes: Because this analysis shows outlays, rather than appropriated or authorized levels, and because the dollars are adjusted for inflation, these ARRA estimates may differ from other published estimates.

+ Less than $500 million.

++ The ARRA increase for foster care and adoption assistance is shown together.

a. Other health includes immunizations, Maternal and Child Health (block grant), children's graduate medical education, lead hazard reduction, abstinence education, children's mental health, birth defects/developmental disabilities, Healthy Start, emergency medical services for children, universal newborn hearing, home visiting, and school-based health care.

b. Other education includes vocational (and adult) education, safe schools and citizenship education, bilingual and immigrant education, Indian education, domestic schools, the Institute for Education Studies, Junior ROTC, hurricane education recovery, and Safe Routes to Schools.

c. Other social services include family preservation and support, juvenile justice, child welfare services and training, Community Services Block Grant, independent living, missing children, children's research and technical assistance, and certain children and family services programs.

d. Other housing includes rental housing assistance and rent supplement.

e. Training includes WIA Youth Formula Grants, Job Corps, Youth Offender Grants, and YouthBuild Grants.

f. Other outlays associated with tax provisions include outlays from Qualified Zone Academy Bonds and Qualified School Construction Bonds.

g. Other tax credits and exemptions include exclusion of employer-provided child care, exclusion of certain foster care payments, adoption credit and exclusion, assistance for adopted foster children, exclusion for Social Security retirement and dependents & survivors' benefits, exclusion for Social Security disability benefits, exclusion for public assistance benefits, exclusion for veterans death benefits and disability compensation, Qualified Zone Academy Bonds, and Qualified School Construction Bonds.

$74 billion

Medicaid, which spent $74 billion on children in 2011, or about one-quarter of all Medicaid spending, was the single largest "children's program" in the federal budget (see figure 3).

The next two largest programs are the Earned Income Tax Credit and the Child Tax Credit, accounting for $52 billion and $46 billion, respectively. These refundable tax credits are split between cash payments refunded to families (outlays) and reductions in tax liabilities. Most of the EITC comes in the form of cash refunds, while the CTC is split more evenly between refunded tax credits and reductions in tax liabilities. The EITC and the CTC were both expanded under ARRA for tax years 2009 and 2010, resulting in increased expenditures in 2009–11.

Nearly half of all expenditures from the Supplemental Nutrition Assistance Program (formerly food stamps) are spent on children, accounting for $37 billion in expenditures on children in 2011. While ARRA increased the amount of SNAP benefits received by families, most of the recent growth in the program is driven by the rising number of economically needy families applying for assistance during the recession. During the past four years, the number of children receiving nutrition assistance through SNAP increased by 8 million, or more than 60 percent. About 21 million children, or approximately one in four American children, received SNAP benefits during the spring of 2011.

The dependent exemption was similar in size to SNAP spending on children in 2011, reducing the tax liability of families by $35 billion compared with what they would have paid if they had not had children.

The remaining five largest programs each provide between $14 and $22 billion for children and include Social Security (survivors' and dependent benefits), Title I/Education for the Disadvantaged, Child Nutrition (including the school lunch and breakfast programs), Special Education, and TANF, which provides cash payments, work supports, and other services to low-income families with children. Social Security and Child Nutrition spent a little more in

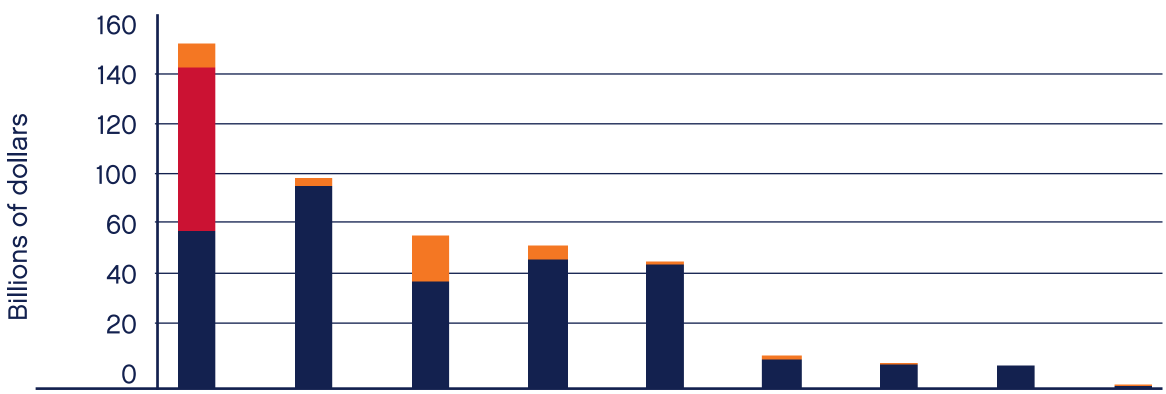
2011 than in 2010, while dwindling ARRA funds led to declines in spending under the two largest federal education programs and TANF. The State Fiscal Stabilization Fund, a temporary fund established under ARRA, dropped out of the list of top 10 programs in 2011 because its expenditures in support of K–12 education dropped from $17 to $9 billion.

Total expenditures on children in 2011 can be broken into nine broad budget categories, as shown in figure 4. Expenditures for child-related tax provisions, totaling $144 billion, compose the largest category of expenditures, if one combines the outlay and tax expenditure portion of tax credits, the dependent exemption, and other tax provisions. Nearly $88 billion was spent on children's health, making it the second largest in total expenditures and the largest in outlays. This category includes not only Medicaid and CHIP, but also the Maternal and Child Health Block Grant, vaccine and immunization programs, and several smaller health programs. The third largest category is education ($64 billion), followed by children's spending in the areas of nutrition and income security, at $60 and $53 billion, respectively. Early education and care, social services for children (e.g., foster care and adoption assistance), and housing benefits for children are much smaller ($10–$14 billion each), while less than $2 billion is spent on training services for youth under 19.

60%

During the past four years, the number of children receiving nutrition assistance through SNAP increased by 8 million, or more than 60 percent.

Figure 4 Federal Expenditures on Children in Fiscal Year 2011, by Category



	Tax provisions	Health	Education	Nutrition	Income security	Early education and care	Social services	Housing	Training
ARRA (a)	10.1	3.2	19.3	5.8	1.3	1.6	0.2		0.1
Tax Reductions	68.1								
Outlays	66.0	84.8	44.8	54.1	51.9	12.3	10.2	9.8	1.3

Source: The Urban Institute, 2012. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2013* and unpublished tabulations from the Congressional Budget Office.

a. ARRA primarily affects outlays, but it has a small impact on tax reductions, as detailed in table 1.

As already noted, total expenditures fell by $5 billion between 2010 and 2011, including a $2 billion decline in outlays and $3 billion decline in tax expenditures. Even so, spending increased in three categories (see table 1). Spending increased in nutrition (primarily in SNAP) and in income security programs, where increases in SSI payments to disabled children and veterans' survivors and dependent benefits were greater than decreases in TANF. Early care and education spending also increased slightly. One category—housing—saw no significant change, while the remaining categories saw declines in spending. Expenditures decreased most dramatically in education, but also fell in health, social services, training, and tax provisions (with declines in each of the three tax-related categories—refundable tax credits, tax expenditures, and the dependent exemption).

Education spending decreased by $5 billion between 2010 and 2011, commensurate with the entire decline in expenditures for children. An $8 billion drop in support to K–12 education through the ARRA-funded State Fiscal Stabilization Fund and declines in other education programs were only partially offset by an increase in spending from the temporary Education Jobs Fund. Despite the decline in ARRA education investments, ARRA continued to account for 30 percent of all federal education spending in 2011, highlighting the future drop in education funding that will occur as the remaining ARRA funds are exhausted (as discussed further in the projections section).

…the kids' share of ARRA outlays was more than twice as high as the kids' share of overall budget outlays…

ARRA had a powerful impact on spending on children in 2010 and 2011, as shown in table 1 and the accompanying figures. Almost one-quarter of ARRA outlays (24 percent) were targeted toward children over the 2009–19 period, meaning that the kids' share of ARRA outlays was more than twice as high as the kids' share of overall budget outlays (24 percent compared with 10 percent). Only 3 percent of ARRA tax reductions were targeted toward children, but even so, the overall kids' share of expenditures was 19 percent, a sizable proportion.

For the second year, we have made preliminary estimates of two programs or tax provisions that are not yet in our 1960–2011 database of children's expenditures, and thus not included in table 1 or any of the figures. One, the children's share of the tax subsidy for employer-provided health care, is large enough (an estimated $19.4 billion) that it would fall into our top 10 list if it were added to our database. The other, the children's share of dependent allowances under unemployment compensation, is much smaller ($1.2 billion). See the text box for further details.

State and Local Spending on Children

We now broaden our analysis to include state and local spending, to see how the recent trends in federal spending affect total public spending on children. First, we examine total public spending in 2008, before the recession, combining our estimates of federal spending for that year with state and local expenditure data collected by the Rockefeller Institute. Second, we present estimates of state and local spending through 2011, to get a sense of how total public investments changed during the recession. We focus on outlays, not tax reductions, because the state and local spending estimates do not include child-related tax provisions other than the earned income tax credit. Even with this narrower definition, there are some differences in state/local compared with federal spending.[7]

State and local spending on public schools dwarfs all other forms of spending on children, averaging $7,154 per child, out of a total public investment of $11,822 per child in 2008 (these amounts are expressed in inflation-adjusted, 2011 dollars and are spread across all children under 19, including those not in school). The federal government paid only $537 per capita, or 7 cents of the average dollar spent on elementary and secondary education (see table 2). The large ARRA increases in federal funding for education in 2009–11, while significant, represent a modest proportion of total spending on education. Spending on education represents 65

Additional Federal Expenditures on Children

The *Kids' Share* database contains information on more than 100 programs and tax provisions. Even so, we continue to seek out new programs or additional forms of spending that might be added. For both 2010 and 2011, we have developed estimates for two programs or tax provisions: the children's share of the tax subsidy for employer-provided health insurance and the children's share of unemployment benefits in states that provide dependent allowances for children. There was an estimated $19.4 billion in tax expenditures on employer-provided health insurance for children in 2011 and $1.2 billion spent on dependent allowances in certain states' unemployment programs. Because these are ballpark estimates that were only calculated for two years, we do not include them in the *Kids' Share* estimate of total expenditures on children. If we did, total expenditures would increase from $445 billion to $465 billion.

We plan to continue estimating tax expenditures on employer-provided health insurance in order to determine whether future declines in such tax expenditures may offset increases in spending for public coverage. We are less certain of the value of tracking dependent allowances to unemployed workers with children because less than a third of the states include such a benefit, and it is small relative to the program as a whole.

Tax exclusion for employer-provided health insurance. The exclusion of employer-provided health insurance from income tax is the largest single tax expenditure for individuals, valued at approximately $163 billion in 2011. Because the cost of health insurance for families is greater than the cost for individuals, the resulting subsidies are higher for workers with children than workers without children; thus, these tax expenditures fit with the *Kids' Share* definition of spending on children. To estimate the children's share of the tax exclusion for employer-provided health insurance, we worked with analysts from the Urban Institute's Health Policy Center to combine estimates from the Urban Institute's Health Insurance Policy Simulation Model and the National Bureau of Economic Research's TAXSIM model. The total tax advantage for a family policy is allocated to children based on the marginal costs of providing health insurance to dependents, calculated as the difference between a family plan and individual coverage. In this case, we use marginal costs, rather than dividing the cost of the family plan equally among all members in a family, because dependent coverage is always in addition to primary coverage of the primary worker. Based on this methodology, and distinguishing between coverage for spouses and coverage for children, we estimate that 12 percent of the health insurance exclusion benefit can be attributed to children, representing $19.4 billion in 2011.

Unemployment benefits. Unemployment benefits are not classified as children's spending in the *Kids' Share* analysis because benefits do not generally increase with the presence of children. However, some states provide increased benefits for workers with children. While some states have done so for decades, two additional states began doing so in 2010, although one of these dropped out in 2011, bringing the number of states with dependent allowances to 14. Unfortunately, there are no good data on the amount of unemployment benefits provided in the form of dependent allowances to minor children. By combining data from various sources, we arrived at a ballpark estimate of roughly 1 percent of total unemployment benefits. In 2011, 1 percent of federal funding for unemployment compensation comes to $1.2 billion; the amount would be much less in years with lower unemployment.

Further information on both these estimates is provided in the *Data Appendix*.

percent of total public spending on children, as well as 89 percent of state/local spending on children. Nationwide, the state/local spending on public schools is fairly evenly split between state governments and local school districts.

Both federal and state governments contribute to children's health spending, with the federal government providing 59 percent of the total, or $798 per capita, and the states 41 percent, or $549 per capita (as shown in table 2). Health spending accounted for 11 percent of total public investments in children in 2008.

State and local governments fund only 10 percent of spending on income security and tax credits, through their share of TANF and child support enforcement programs, and, in some states, state earned income tax credits. They also provide about the same proportion (11 percent) of all other spending on children; while states contribute a substantial share of total spending on child care, foster care, and other social services, they spend very little on nutrition, housing and training, also included in this "other" category.

Table 2 Federal and State/Local Per Capita Spending on Children and the Elderly, 2008 (2011 dollars, except where noted)

Categories	Federal	State/Local	Total	Federal share
	Children			
Health	798	549	1,347	59%
Education	537	7,154	7,691	7
Income security and tax credits	1,560	183	1,743	90
Other[a]	927	114	1,041	89
Total	3,882	8,000	11,822	32
	Elderly			
Health	10,179	849	11,029	92
Education	-	-	-	n.a.
Income security and tax credits	14,901	50	14,952	100
Other[a]	375	b	375	100
Total	25,455	901	26,355	97

Source: The Urban Institute, 2012. Authors' estimates based on data from the *Budget of the U.S. Government Fiscal Year 2013* and data from Billen et al. (2007).

Note: Tax expenditures are not included in these figures. The population of children (those < age 19) and elderly (age 65 and older) were used to calculate per capita amounts.

a. Includes nutrition, early education and care, social services, housing, and training.

b. Minimal amounts, not included in estimate.

Across all categories, public investments in children totaled $11,822 per child in 2008 (in inflation-adjusted 2011 dollars), split roughly one-third (32 percent) federal and two-thirds state/local. Spending is, of course, higher on some children than others, and in some states than others. For example, per capita spending is roughly twice as high on low-income children as on children from families with higher incomes; it is also twice as high on elementary school–age children as on infants and toddlers, according to other reports in this series (Vericker et al. 2012; Macomber et al. 2010). In addition, spending varies considerably across states; state and local spending on children was 2.5 times higher in New Jersey than in Utah in 2004, and federal expenditures on children also varied across states (Billen et al. 2007).

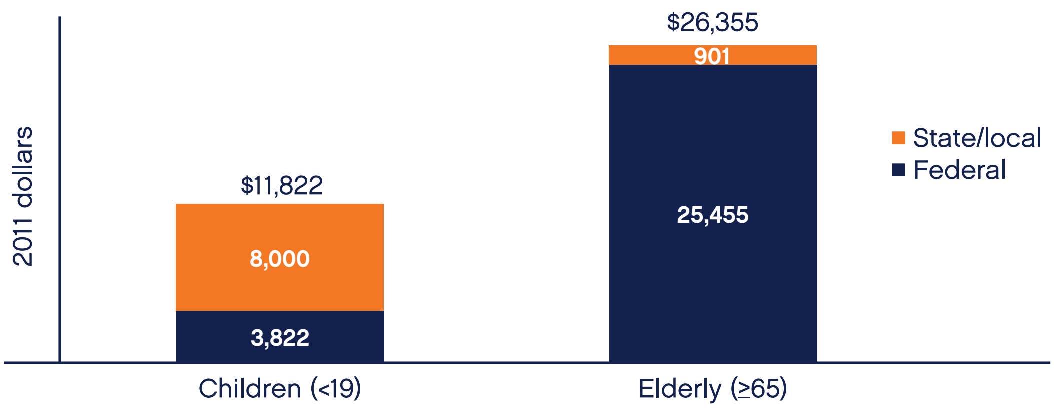
Elderly spending shows sharply different patterns, both in total amounts per person and in the relative role of state and local governments (see table 2). In total, public spending on the elderly was $26,355 per person, or 2.2 times the amount spent per child in 2008.[8] Health care expenses are a significant portion of public expenditures on the elderly—more than $11,000 per person—but per capita spending on the elderly remains considerably higher than per capita spending on children even when health spending is excluded.

As shown in figure 5, the vast majority of public spending on the elderly is federally funded, primarily through Social Security and Medicare. Less than 5 percent comes from state and local governments. Looking solely at the federal budget, an elderly person receives close to seven federal dollars for every dollar received by a child.

. . . an elderly person receives close to seven federal dollars for every dollar received by a child.

The size of the elderly population is about half that of the child population; there were 38.7 million elderly age 65 and older, representing 13 percent of the population in 2008, compared with 79.2 million children age 18 and younger, or 26 percent of the population. In aggregate, federal outlays on the elderly were 3.2 times those on children in 2008; 31 percent of federal outlays in 2008 were spent on the elderly, compared with 10 percent on children. In other words, the federal budget spends three times as much on half as many people.

Figure 5 Per Capita Spending on Children and the Elderly in 2008 (in 2011 dollars)



Source: The Urban Institute, 2012.
Note: Tax expenditures are not included in either the children or elderly figures.

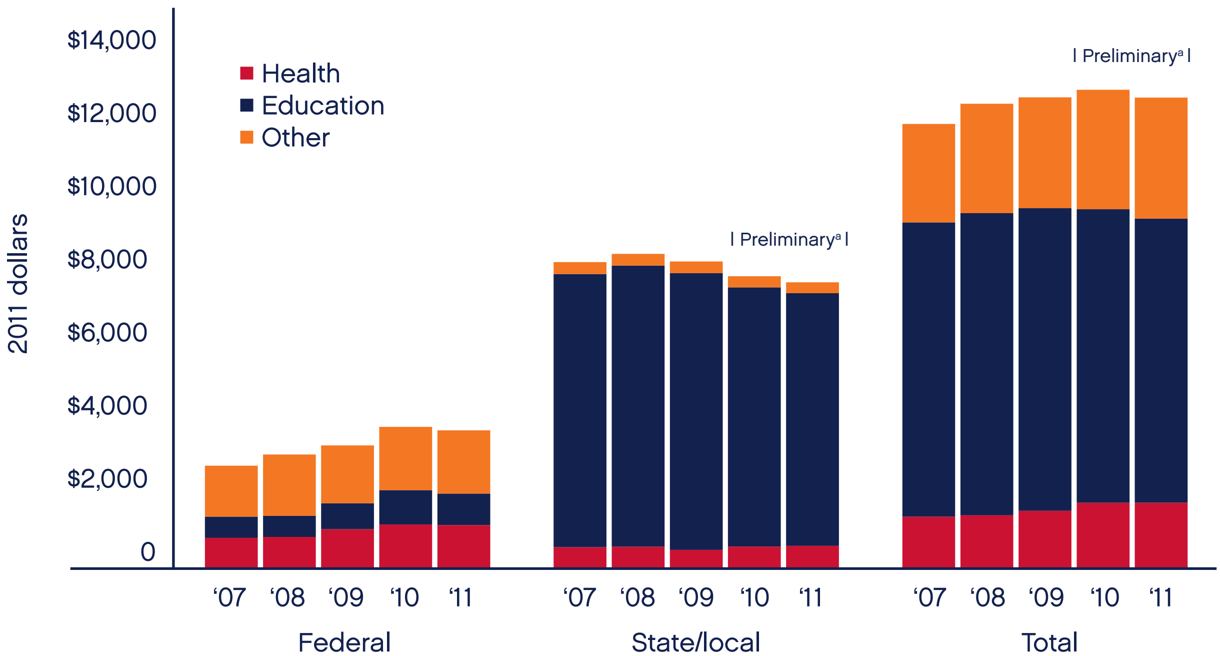
Total Spending on Children during the Recession

While we do not have complete state and local data for 2009, 2010, or 2011, the data we have compiled indicate that state and local spending per child has fallen since 2008. Our best estimates of the magnitude of that decrease suggest that the ARRA increases in federal spending were barely sufficient to offset decreased state and local spending over the past few years. In other words, total spending per child showed no strong upward or downward trend between 2008 and 2011 but was more or less flat, as shown in figure 6.

We caution that the estimates in figure 6 are preliminary. In particular, while state spending on education and health can be estimated fairly reliably, data on local education spending are only complete through 2009, so we had to project these spending levels through 2011.

Under a range of different assumptions, we find that state and local spending fell (though the exact magnitude may be somewhat larger or smaller than that shown in figure 6) and that, coupled with the increase in federal spending, total spending per child did not change radically (although it may have small increases or decreases in any year).[9]

Figure 6 Recent Trends in Per Capita Spending on Children, by Level of Government



Source: The Urban Institute, 2012.

Note: Tax expenditures are not included in either the federal or state/local numbers.

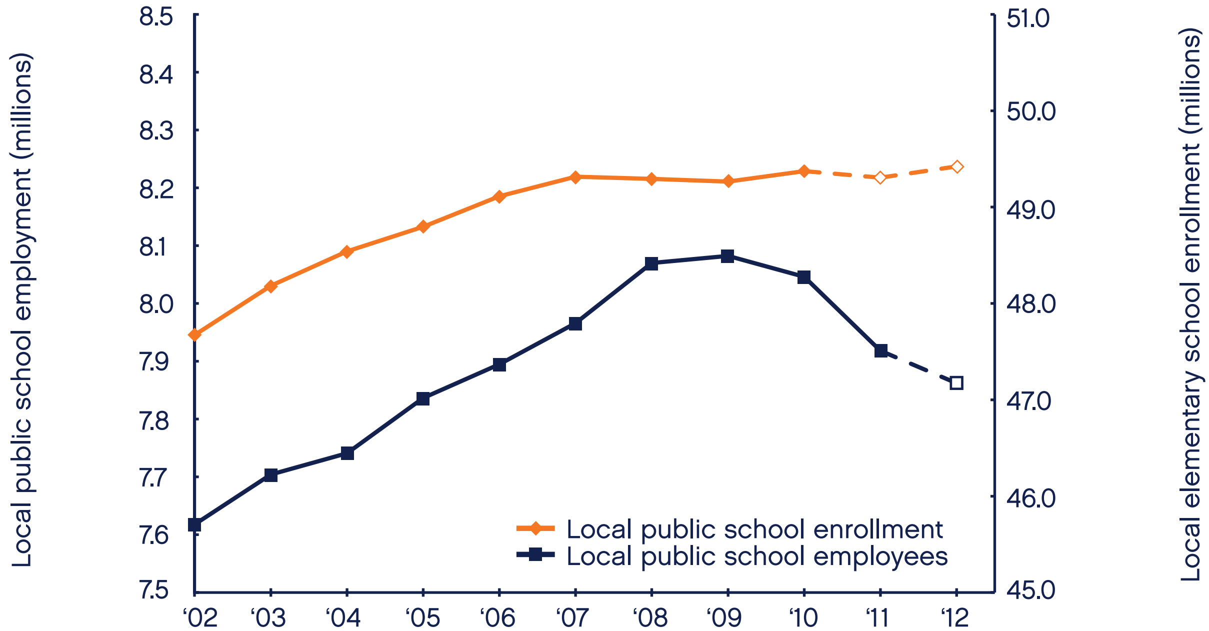
a. State/local numbers for 2010 and 2011 are preliminary estimates and subject to revision. The small "other" state/local number for 2009 is also a preliminary estimate, subject to revision.

Our estimates indicate that in the area of children's health, total public spending rose over the past three years, consistent with the increases in the number of families qualifying for assistance in times of high unemployment and the ARRA restrictions on cutting back states' eligibility rules for Medicaid. In contrast, there is considerable evidence that total investments in education declined, despite the federal increases under ARRA. This decline is seen not only in the spending projections shown in figure 6, but also in elementary and secondary education employment data from the Bureau of Labor Statistics. The number of people employed in the local public educational sector (e.g., K–12 teachers, principals, superintendents, support staff) fell 2 percent between 2009 and 2011, without a comparable decline in student enrollment (see figure 7).[10]

What will happen in 2012? Federal funding is expected to drop by much more than in 2011, and with many states facing ongoing budget shortfalls, it will be challenging for states to fill the gap caused by the drop in federal funding. As a result, there may be cutbacks in services and benefits for children in 2012.

Data through March 2012 indicate that public school employment dropped further in school year 2011–12, suggesting a further decline in total spending on education, which represents

Figure 7 Local Public School Employees and Public Elementary and Secondary Enrollment, 2002–12



Source: Data from the Bureau of Labor Statistics and the National Center on Education Statistics.

65 percent of all public spending on children. However, the second largest component of total public spending, children's health spending, is expected to rise moderately. With the slow economic recovery, many families are still eligible for Medicaid, health care costs continue to rise, and states are generally prohibited from restricting rules about Medicaid eligibility in order to cut costs under one provision of the Affordable Care Act. With available information, it is hard to predict total children's spending in 2012 with certainty, but a decline in total spending per child is likely.

We have not compiled much historical data on state and local expenditures on children, nor do we attempt to project state and local expenditures into the future, so the remainder of this report focuses on federal expenditures. We do note, however, one trend in state and local expenditures: The state/local share of expenditures on children has been falling gradually as a share of total spending on children, at least over the 13 years for which we have data. The state/local share of expenditures fell slightly, from 70–71 percent in 1998–2002 to 67–69 percent in 2003–08. It fell further—to 65 percent—in 2009 and, based on the preliminary estimates described above, is projected to fall to 61 percent in 2010 and 2011, as a result of the temporary boost in federal spending under ARRA. It is unclear what will happen in 2012 and later years, as both federal and state budgets are tight. However, population shifts may contribute to a declining state/local share in the future. The population under 19 is growing most rapidly in southern and southwestern states, where state and local spending on children has traditionally been lower than in other parts of the country; this geographic shift in the child population may exert downward pressure on the aggregate contribution of state/local spending to public spending on children.

Trends in Federal Spending, 1960–2011

During the past half-century, the size and composition of both the overall federal budget and the children's budget has changed considerably. American society has undergone significant changes over this period as well. The family of today is very different from the family of the past, with the average number of children per family shrinking from 1.4 to 0.9 between 1960 and 2011. While this trend might suggest more parental resources per child, many more fathers are living apart from their children. Family incomes have risen, but only because many more mothers are working in both married and single-parent families. Child poverty has remained stubbornly high for much of the past 50 years, declining in better times (to 16 percent in 2000) and increasing in times of recession (to 22 percent in 2010, the most recent year for which full data are available); after all these fluctuations, nearly the same number of children are poor today as in the early 1960s. The job market has changed in innumerable ways, including evolving changes in the availability of employer-provided health insurance and other private-sector job benefits. Health care costs have risen much faster than inflation, leading to higher costs for both private and public health insurance.

People are living longer, and the share of the population that is 65 or older has grown from 9 percent in 1960 to 13 percent in 2010. At the same time, the share of the population that is under 19 has declined from 36 percent in 1960 to 24 percent today. Immigration also has changed the face of America, with particularly strong effects for younger populations. Ethnic minorities make up 46 percent of all children, compared with 23 percent in the mid-1970s (Steuerle, C.E. et al 2011).

These and other demographic and economic shifts in the past half-century provide the context for this analysis, which focuses more narrowly on federal expenditures. Given the scope of those shifts, the analysis primarily addresses large themes, including the inconsistency of spending trends for children and their families compared to a steady increase in spending for older Americans, and shifts in the types of expenditures on children over time. Programs that focus on health, nutrition, and tax benefits have been introduced and greatly expanded since 1960, while spending on income security through cash payments (for example, through Social Security and welfare programs) has fallen as a share of the children's budget. First, we examine spending on children in the context of the overall budget; then, we look at the different components of children's expenditures.

Broad Budget Trends

Over the past 50 years, federal spending has adapted to ever-evolving political and economic environments, changing in total size, allocation of federal dollars, and beneficiaries. As a result of both new government programs and robust economic growth, federal spending has increased nearly sevenfold over the past half-century in real terms, from $560 billion in 1960 to $3.6 trillion in 2011.

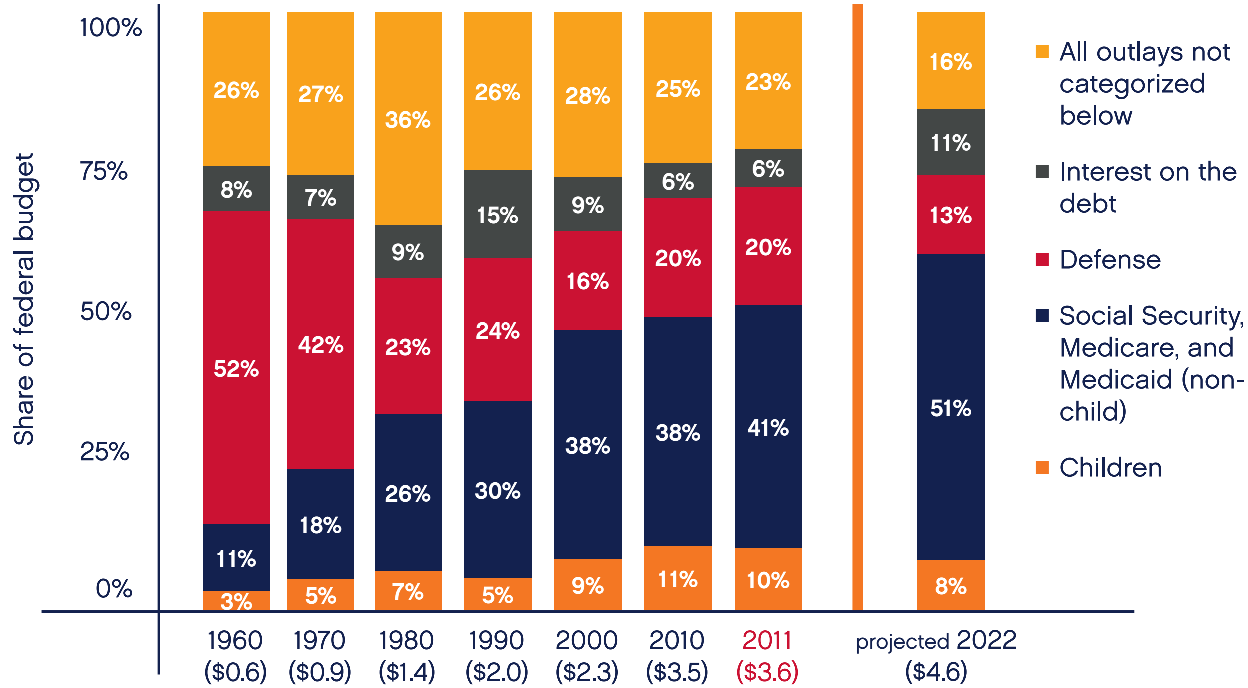
Spending in 2011, like in the two previous years, was affected by the immediate crisis of the recession of the late 2000s, as well as by long-term budgetary trends. As the federal government responded to the recession, federal outlays rose to a peak of $3.62 trillion in 2009, fell to $3.52 trillion in 2010, and then rose back to $3.60 trillion in 2011.

While federal outlays increased over the past year, spending on children fell. As a result, the share of the federal budget allocated to children fell, from 10.7 to 10.4 percent. Budget projections suggest that the children's share of the budget will decline further in the future, shrinking to 8 percent by 2022 absent policy changes. Such a decline represents a significant departure from the past decade, when the share spent on children hovered near 10 percent (fluctuating between 9.0 and 10.7 percent).

The children's share of the budget has grown in fits and starts over the past half-century. Back in 1960, very few federal programs were targeted to children, and only 3 percent of total outlays were spent on children. The children's share grew to nearly 7 percent in 1980, dropped back to 5 percent in 1985, and, as noted, has been near 10 percent for the past decade (see figure 8).

In contrast to the fluctuations in spending on children, spending on Social Security, Medicare, and Medicaid has steadily increased over the past half-century. Excluding any money allocated to children, these three programs have grown from about one-tenth to two-fifths of the federal budget between 1960 and 2011. While budgets today are dominated by ARRA and other federal spending increases reacting to the recession, future budgets will be strongly shaped by this persistent historical trend of increased spending on health and retirement programs. By 2022, more than half of the entire federal budget (51 percent) will be spent on the non-child portions of Social Security, Medicare, and Medicaid, and their growth extends beyond the 10-year projections.

Figure 8 Share of Federal Budget Outlays Spent on Children and Other Items, Selected Years, 1960–2022



Source: The Urban Institute, 2012. Authors' estimates based on data from the *Budget of the U.S. Government Fiscal Year 2013* and previous years and CBO projections.

Notes: Social Security, Medicare, and Medicaid category excludes spending already captured as children's spending. Dollars at the bottom show total federal outlays in trillions of 2011 dollars.

A second important historical trend is the share of the budget spent on defense. This share fell dramatically between 1960 and 2000, from 52 to 16 percent of the budget, then rose somewhat, to 20 percent in 2011, in response to the wars in Iraq and Afghanistan. Under the Budget Control Act's caps on discretionary spending, defense spending is projected to shrink further as a share of federal outlays, to a record low of 13 percent in 2022.

The rest of the budget has not shown such consistent trends over the past 50 years. Interest payments on the debt have fluctuated over the past half-century; they accounted for 6 percent of all budget outlays in 2011 and are expected to rise to 11 percent in 2022. A residual category, which includes all other federal spending priorities such as agriculture, commerce, the environment, transportation, and veterans' benefits, has accounted for about one-quarter to one-third of all government spending over the past several decades, and represented 23 percent of all spending in 2011 (similar to low levels experienced in the mid-1990s). This category is projected to shrink to 16 percent by 2022.

Kids' Share of the Domestic Budget

Tax expenditures are not included in federal budget totals, so the more than $1.1 trillion in total tax expenditures (and the $69 billion in children's tax expenditures) are not included in figure 8 (or figure 10 below). However, children's tax expenditures are included in our measure of the kids' share of the domestic budget, shown in figure 9. Because this estimate aims to get a sense of spending on children relative to other domestic priorities, we exclude spending on defense and international affairs from the domestic budget totals (and also add tax expenditures on children to the spending estimates for children).

23%

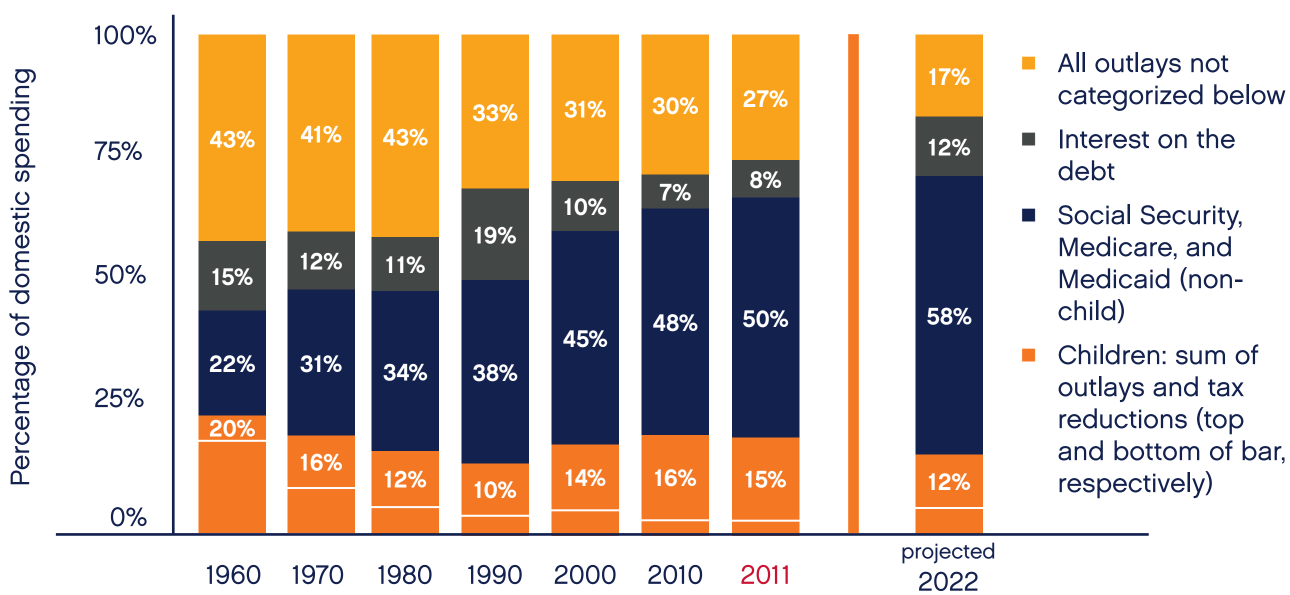
…the children's share of the domestic budget declined by 23 percent during the past 50 years, while non-children spending on Social Security, Medicare, and Medicaid more than doubled.

Under this alternative measure, we estimate that expenditures on children made up 15 percent of domestic expenditures in 2011 compared with 20 percent of the domestic budget in 1960. As discussed further below, this decline is driven primarily by a drop in the value of the dependent exemption. In contrast, spending on Social Security, Medicare, and Medicaid (excluding any money going for children) increased from 22 to 50 percent of the domestic budget during the same period. In other words, the children's share of the domestic budget declined by 23 percent during the past 50 years, while non-children spending on Social Security, Medicare, and Medicaid more than doubled.

Kids' Share of the Economy

Turning back to the analysis of total federal outlays, the dramatic decline in spending on defense between 1960 and 2000 allowed an increase in spending on children and the elderly and disabled for several decades without substantial expansion in total federal outlays relative to the size of the economy. Recently, however, both defense and non-defense spending have been increasing, and revenues have been falling, leading to a historically large gap between revenues and spending, as shown in figure 10 and detailed below.

Figure 9 Share of *Domestic* Budget Spent on Children and Other Items, Selected Years, 1960–2022



Source: The Urban Institute, 2012. Authors' estimates based on data from the *Budget of the U.S. Government Fiscal Year 2013* and previous years and CBO projections.

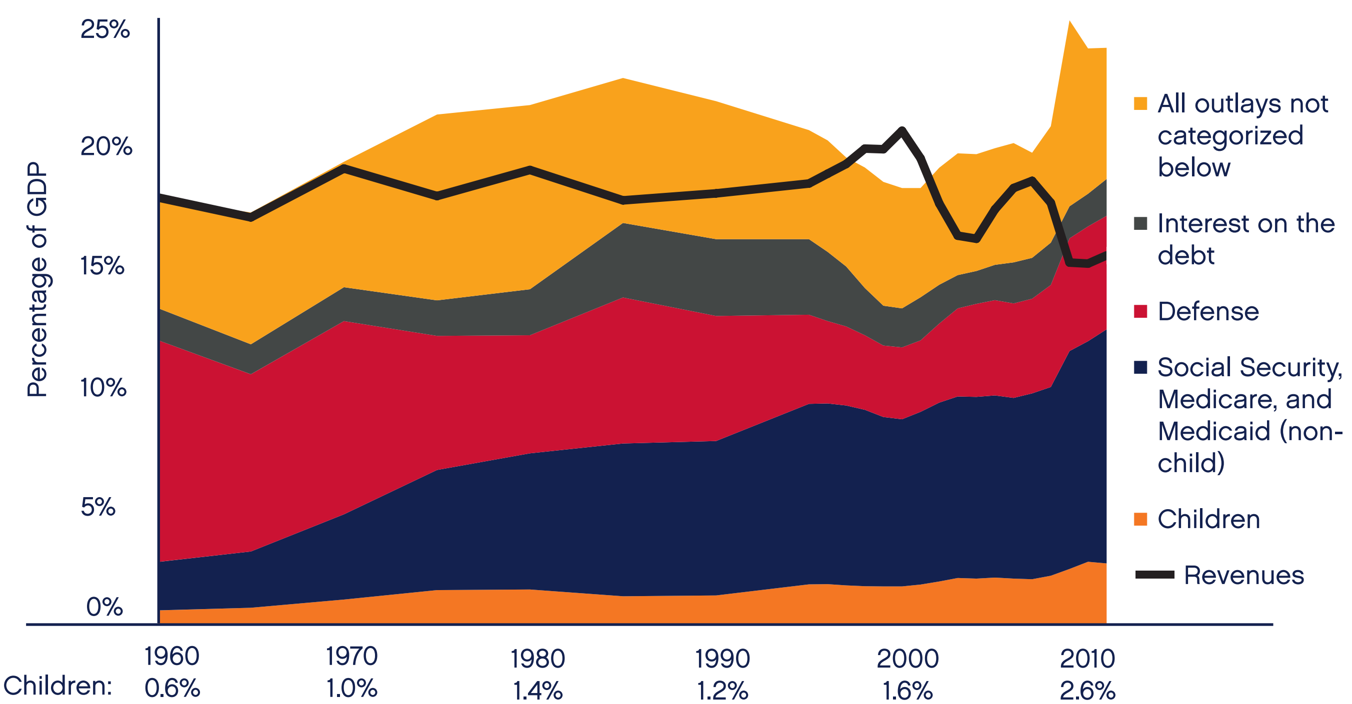
Notes: Social Security, Medicare, and Medicaid category excludes spending already captured as children's spending. Domestic spending includes tax expenditures on children as well as outlays on all budget items other than defense and international affairs.

As a share of the economy, the non-child portions of Social Security, Medicare, and Medicaid have increased nearly fivefold, from 2.0 to 9.8 percent of GDP between 1960 and 2011. Federal outlays on children also have grown, from a low base of 0.6 percent of GDP in 1960 to 2.6 percent of GDP in 2010, before falling back to 2.5 percent of GDP in 2011. (See below for description of expansion in programs on children, particularly in the 1960s and 1970s). With defense spending falling between 1960 and 2000, total federal outlays did not experience substantial upward growth, but instead experienced periods of expansion and contraction.

Between 1960 and 2000, federal outlays fluctuated between 17 and 23 percent of GDP, while federal revenues fluctuated between 17 and 20 percent of GDP (see figure 10). While outlays surpassed revenues in most years, the size of the deficit varied, and for a few brief years (1997–2001), there was a small surplus. This surplus vanished in recent years from a combination of effects: a substantial decline in revenues following the tax bill of 2001; increased spending on both domestic priorities and defense; and, in the past three years, a dramatic growth in total federal spending in response to the recession and the increased needs of unemployed families, struggling industries, and cash-strapped states and localities.

In 2011, federal spending accounted for 24 percent of GDP, while revenues were 15 percent, leading to a deficit of 9 percent of GDP, only slightly below the record-level deficit at the height of the recession (10 percent of GDP in 2009). While the latest recession is partly to blame for the historically high gap between spending and taxes, a structural imbalance between revenues and spending is projected to continue over the next decade. While the spending restrictions required under the Budget Control Act are expected to reduce spending somewhat (and, consequently, reduce the deficit and interest payments on the debt), further measures to address spending—and revenues—are needed if the country is to reduce the size of the deficit relative to the economy. Any broad changes to the federal budget are likely to have implications for children.

Figure 10 Federal Outlays and Revenues as a Share of GDP, 1960–2011



Source: The Urban Institute, 2012. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2013* and unpublished tabulations from the Congressional Budget Office.

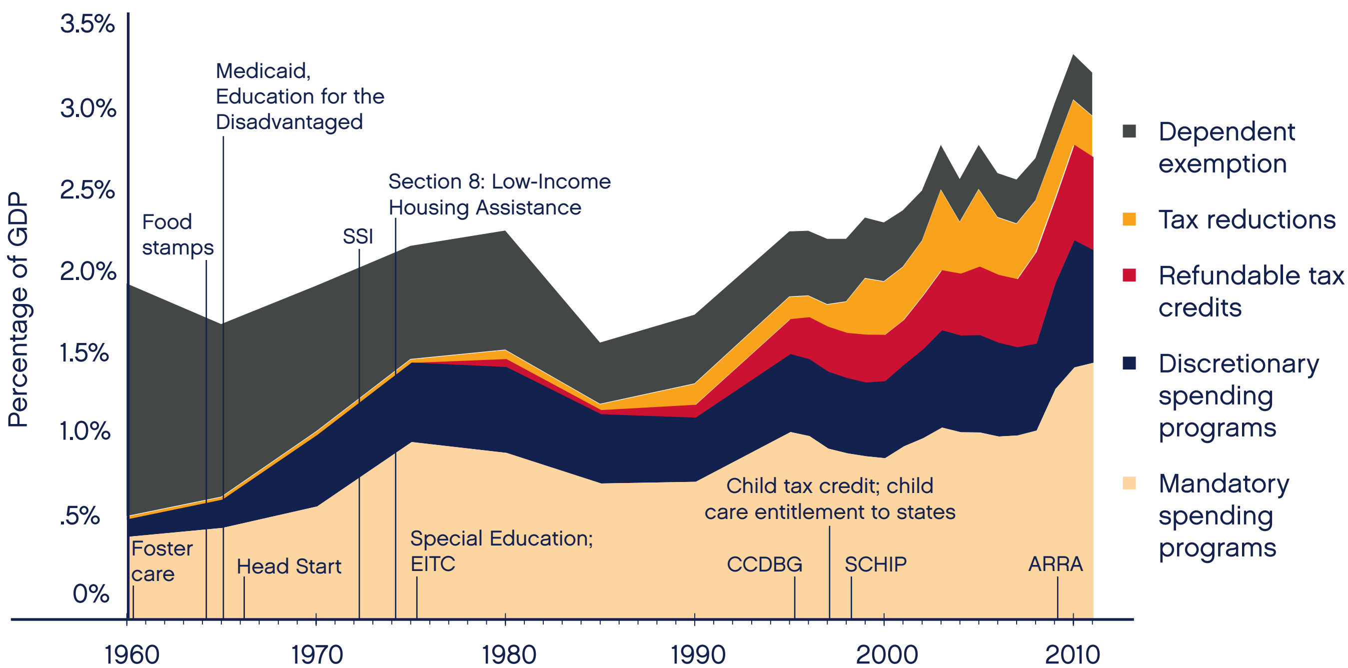
We turn now to examine trends in the different types of expenditures on children over the past half-century, looking comprehensively at total expenditures, including the dependent exemption and other tax breaks for families with children.

Trends in Expenditures on Children, 1960-2011

As new programs and initiatives were introduced over the 1960s and early '70s, federal spending on children increased. With the adoption of Medicaid (1965), food stamps (1964), and SSI (1972), there was a rise in spending on entitlements and other mandatory programs (that is, programs where the funding level is set directly in the authorizing legislation). This same period saw increased spending on discretionary programs (programs subject to annual appropriations actions), with the introduction of Title I/Education for the Disadvantaged (1965), Head Start (1966), and Section 8/Low-Income Housing Assistance (1974), as shown in figure 11.

Discretionary spending on children has, after an initial rise, remained relatively flat (as a percentage of GDP) from the mid-1970s through 2008. The one exception to this general trend is the recent increase in discretionary spending under the ARRA stimulus package.

Figure 11 Components of Expenditures on Children, 1960–2011



Source: The Urban Institute, 2012. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2013* and past years.

Mandatory spending on children has experienced periods of both growth and decline relative to the size of the economy. Children's spending has trended upward in the past 15 years or so, largely driven by increases in children's health spending as the Medicaid program expanded to serve more children and families, CHIP was introduced (1998), and medical costs rose rapidly. Mandatory spending has increased sharply since 2009, owing to the combined effects of the automatic expansions of SNAP and Medicaid spending during recessions and the additional expansions under ARRA.

Tax credits have played a growing role in providing federal support for children since the late 1980s. The Earned Income Tax Credit, originally introduced in the 1970s, was expanded in 1986, 1990, and 1993, and the Child Tax Credit was introduced in 1997. Both the refundable portion of these tax credits (cash payments provided to working families without a net tax liability) and the tax expenditure portion (the reduction in taxes to families with higher taxable incomes) have grown substantially over the past two decades.

This growth in the Child Tax Credit and other tax expenditures has occurred, however, against the backdrop of a large decline in estimated expenditures associated with the dependent exemption. The decline was particularly dramatic between 1960 and 1985, but it has continued since then. In fact, the combined value of all tax provisions affecting children (refundable tax credits, tax expenditures, and the dependent exemption) as a share of GDP was lower in 2011 than it was in 1960 (0.5 percent compared with 1.3 percent).

The long-term decline in the dependent exemption should be interpreted with some care. Some of the decline reflects the eroding value of the exemption amount, which remained a flat $600 from 1948 to 1969 and was not indexed to inflation until after 1984. However, some of the reduction in expenditures on the dependent exemption results from overall reductions in tax rates. Since the dependent exemption reduces taxable income, its value is determined by the tax rate facing the taxpayers claiming the exemption. Thus, the dependent exemption provides less of a benefit to low-income families than to higher-income families, and it provides less of a benefit when tax rates are reduced across the board, as occurred in 2001.[11]

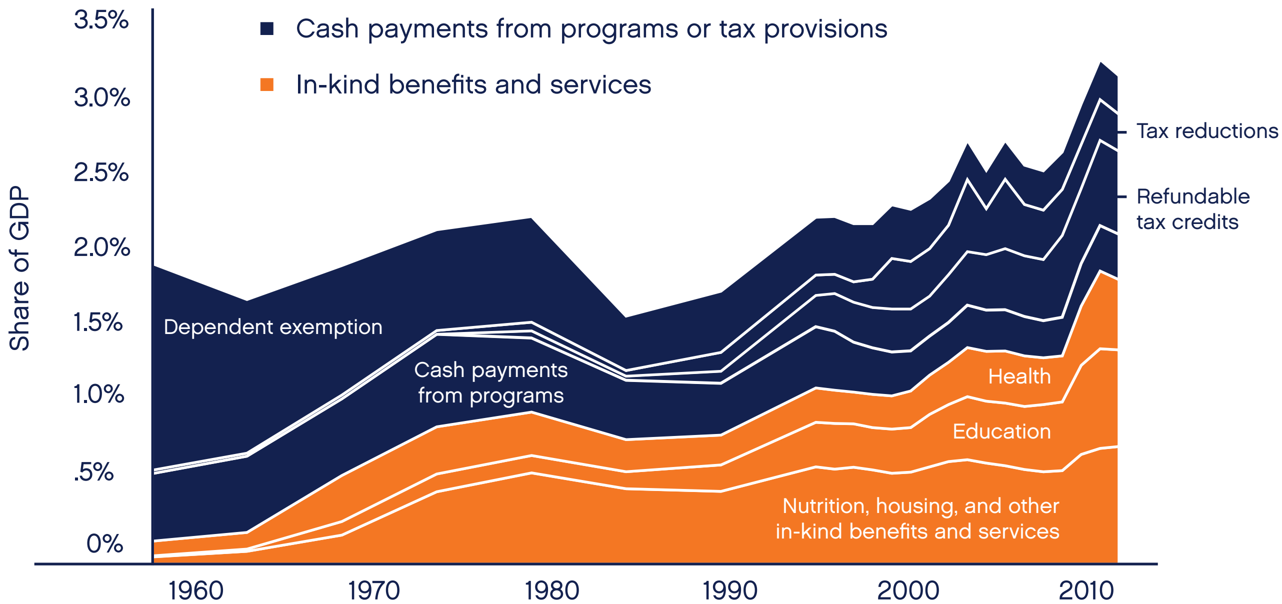
Federal spending on children has also shifted in terms of how benefits are received. Other than the reduction in taxes, benefits in the 1960s were mainly received as cash payments to parents on behalf of their children; less than 10 percent of all benefits were in-kind benefits (for example, education and nutrition benefits). Over time, as new programs providing in-kind benefits and services were introduced (e.g, Medicaid and Head Start), noncash benefits became an increasingly important share of the benefits provided to children, as shown in figure 12. This trend has accelerated during the past three years, as recession-related participation in programs like Medicaid (providing services for children) and SNAP (providing in-kind benefits) sharply increased spending for children through in-kind benefits. In 2011, in-kind benefits accounted for more than half of total expenditures on children.

$100 billion

The two main refundable tax credits affecting children today are the EITC and CTC; together, they provide almost $100 billion in support to families with children in 2011…

Further, as mentioned above, children are now receiving a significant share of benefits through the tax code. While the dependent exemption has declined over time, several new tax provisions affecting families with children have been introduced and expanded since the 1980s. Some of the decline in cash payments to parents has been offset by an increase in refundable tax credits, which also provide cash payments, though annually rather than monthly. The two main refundable tax credits affecting children today are the EITC and CTC; together, they provide almost $100 billion in support to families with children in 2011, including $73 billion in refundable tax credits and $25 billion in tax reductions.

Figure 12 In-Kind Benefits, Cash Payments, and Cash from Refundable Tax Credits and Tax Expenditures on Children, 1960–2011



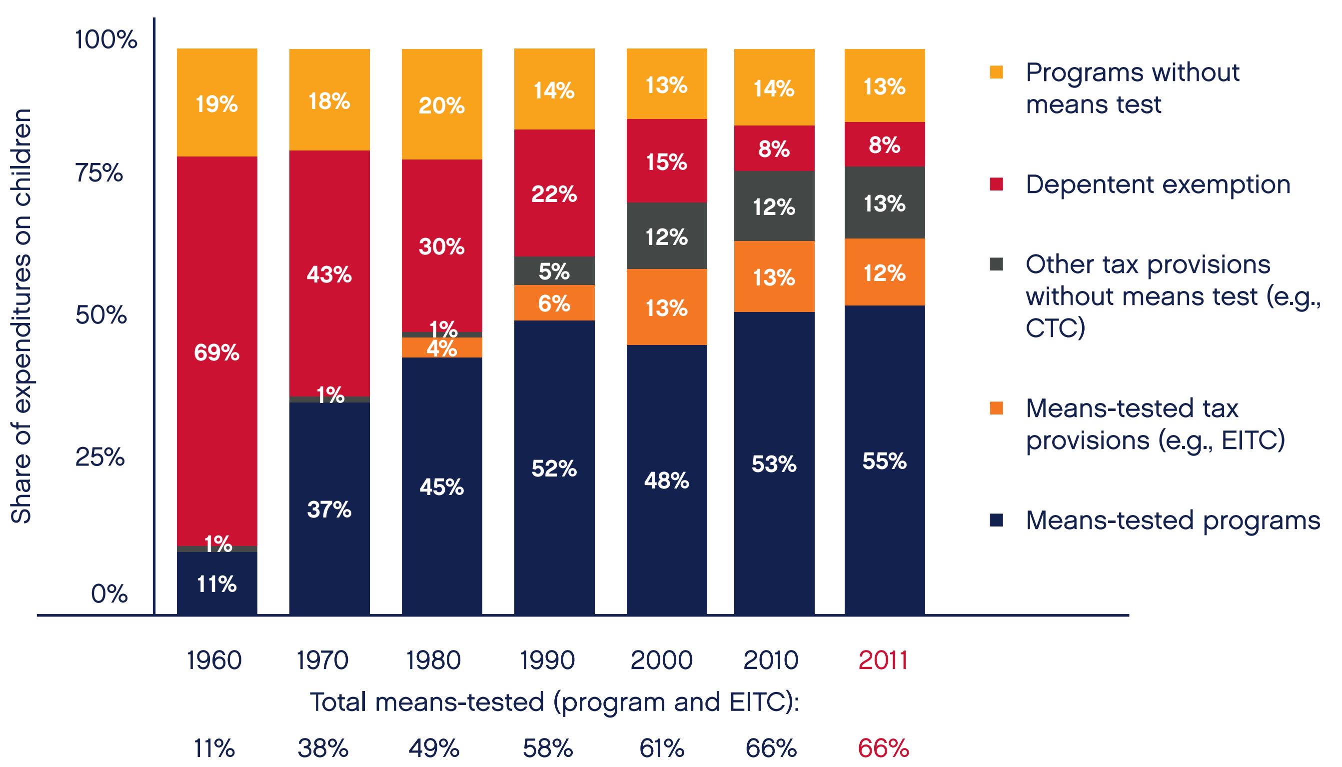
Source: The Urban Institute, 2012. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2013* and past years.

In addition to changes in how children receive benefits, the question of who receives benefits has changed over time (see figure 13). In 1960, the majority of children's expenditures were on survivors' and dependents benefits under Social Security, the dependent exemption, and other benefits that were available regardless of family income. The focus of children's spending changed as new federal programs such as food stamps, Medicaid, and SSI payments to disabled children were introduced to serve low-income populations. By 1980, half (49 percent) of total federal expenditures were on programs that are means tested—that is, only available to families below a certain level of financial means.

Since then, spending trends have been complex. The share of means-tested programs and tax expenditures rose to a peak of 69 percent in 1995 (data not shown), but then dropped back to 61 percent in 2000, partly due to the Child Tax Credit, which—because it is phased out only at fairly high income levels—is not counted among means-tested programs in this analysis.[12] In addition, the key health programs—Medicaid and CHIP—are still counted in our analysis as means-tested but have been made available to children higher up the income ladder today than the past. In other words, the definition of "means-tested program" has changed over time.

The past three years have seen spending grow on means-tested programs and tax provisions, driven by the effects of the recession on family income and the ARRA expansions of SNAP, the EITC, Medicaid, and other programs providing assistance to families in financial need. After hovering around 60 to 62 percent for most of the 2000s, means-tested spending grew to 64 percent in 2009 and 66 percent in 2010 and 2011.

Figure 13 Means Testing of Children's Programs and Tax Provisions, 1960–2011



Source: The Urban Institute, 2012. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2012* and past years.

This historical analysis of spending classifies an entire program as means-tested or not, even though economically disadvantaged children generally receive resources from universal programs, and children from higher-income families sometimes receive services from means-tested programs A recent report in the *Kids' Share* series examined the targeting of children's expenditures more closely and found that 70 percent of all federal expenditures on children in 2009 served low-income children, defined as those living below 200 percent of the federal poverty level (a group representing 42 percent of all children in that year; see Vericker et al. 2012). The report also found that state and local spending is much less targeted than federal spending, as most of it is spent on universal public education.

Table 3 provides a detailed analysis of trends in children's expenditures from 1960 to 2011, by category and major program. It shows, for example, that health spending has grown from 0 to 20 percent of total expenditures on children, while refundable tax credits have grown from 0 to 17 percent. On the other hand, the dependent exemption has fallen from 69 to 8 percent of expenditures on children, and income security has fallen from 22 to 12 percent. And, while total support to children was primarily in the form of tax reductions (70 percent) rather than outlays (30 percent) 50 years ago, the split is now only 15 percent tax reductions and 85 percent outlays.

Table 3 Federal Expenditures on Children in Selected Years (billions of 2011 dollars and as percentage of total)

	1960		1980		2000		2010		2011	
	$	%	$	%	$	%	$	%	$	%
1. Health	$0.2	0%	$7.1	5%	$34.0	13%	$88.8	20%	$87.9	20%
Medicaid	-		$6.4		$30.3		$75.5		$73.9	
CHIP	-		-		$1.6		$7.6		$8.3	
Vaccines for children	-		-		$0.7		$3.6		$3.7	
Other health[a]	$0.2		$0.7		$1.5		$2.2		$2.1	
2. Income Security	$13.0	22%	$30.4	22%	$42.8	16%	$52.2	12%	$53.1	12%
Social Security	$6.6		$16.4		$17.1		$20.4		$21.3	
Temporary Assistance for Needy Families	$4.5		$9.8		$13.8		$15.0		$13.7	
Supplemental Security Income	-		$0.9		$6.2		$10.0		$11.0	
Child support enforcement	-		$0.8		$3.8		$4.0		$3.7	
Veterans' benefits	$1.6		$2.3		$1.8		$2.8		$3.4	
Railroad retirement	$0.3		$0.1		+		+		+	
3. Education	$2.9	5%	$17.3	12%	$27.9	10%	$69.5	15%	$64.1	14%
Education for the disadvantaged (Title I, Part A)	-		$7.7		$10.9		$19.9		$19.5	
Special education	-		$2.0		$6.3		$17.6		$17.1	
State Fiscal Stabilization Fund	-		-		-		$17.1		$8.9	
School improvement	-		$1.9		$3.2		$5.4		$5.4	
Education Jobs Fund	-		-		-		$1.3		$5.1	
Impact Aid	$1.6		$1.7		$1.1		$1.2		$1.3	
Dependents' schools abroad	$0.2		$0.8		$1.2		$1.2		$1.2	
Innovation and improvement	-		-		-		$1.0		$1.0	
Other education[b]	-		$2.3		$3.6		$4.7		$4.5	
4. Nutrition	$1.4	2%	$20.9	15%	$28.5	11%	$55.4	12%	$59.9	13%
SNAP/Food Stamps	-		$10.9		$12.4		$32.9		$36.7	
Child nutrition	$1.4		$8.5		$11.7		$16.7		$17.2	
Sup. Food for Women, Infants and Children	-		$1.5		$4.4		$5.8		$6.0	
Commodity Supplemental Food Program	-		+		+		+		+	
5. Early Education and Care	-	-	$2.0	1%	$9.9	4%	$14.1	3%	$14.5	3%
Head Start and Early Head Start	-		$2.0		$5.7		$8.2		$8.4	
Child Care and Development Fund	-		-		$4.2		$6.0		$6.1	
6. Social Services	-	-	$4.3	3%	$14.4	5%	$10.5	2%	$9.8	2%
Foster care	-		$0.7		$5.6		$4.5		$4.4	
Adoption assistance	-		-		$0.2		$2.4		$2.3	
Social Services Block Grant	-		$3.0		$1.2		$1.1		$0.9	
Other social services[c]	-		$0.5		$3.0		$2.4		$2.2	
7. Housing	-	-	$2.6	2%	$7.7	3%	$9.7	2%	$9.8	2%
Section 8 Low-Income Housing Assistance	-		$1.3		$6.0		$7.3		$7.3	
Low-rent public housing	-		$0.5		$1.0		$1.2		$1.2	
Low Income Home Energy Assistance	-		-		$0.5		$1.1		$1.1	
Other housing[d]	-		$0.7		$0.3		$0.1		$0.1	
8. Training[e]	-	-	$6.0	4%	$2.4	1%	$1.6	0%	$1.5	0%
9. Refundable Portions of Tax Credits	-	-	$2.9	2%	$31.8	12%	$76.1	17%	$75.7	17%
Child Tax Credit	-		-		$1.0		$23.1		$22.7	
Earned Income Tax Credit	-		$2.9		$30.8		$51.5		$51.4	
Adoption credit and exclusion	-		-		-		$1.0		$1.2	
Other outlays from tax provisions[f]	-		-		-		$0.5		$0.4	
10. Tax Expenditures	$0.6	1%	$3.4	2%	$36.5	13%	$36.1	8%	$33.5	8%
Child tax credit (nonrefundable portion)	-		-		$24.7		$23.5		$23.4	
Earned income tax credit (nonrefundable portion)	-		$1.7		$5.5		$4.6		$1.1	
Dependent care credit	-		-		$3.0		$3.4		$4.1	
Other tax credits/exemptions[g]	$0.6		$1.7		$3.4		$4.5		$4.9	
11. Dependent Exemption	$39.9	69%	$42.4	30%	$39.9	15%	$35.9	8%	$34.9	8%
TOTAL EXPENDITURES ON CHILDREN	$58.0	100%	$139.3	100%	$271.4	100%	$450.1	100%	$444.8	100%
OUTLAYS SUBTOTAL (1–9)	$17.4	30%	$93.5	67%	$199.4	73%	$378.0	84%	$376.2	85%
TAX EXPENDITURES (10–11)	$40.5	70%	$45.8	33%	$76.4	28%	$72.0	16%	$68.3	15%

Source: The Urban Institute, 2012. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2013* and past years.

Note: See table 1 for list of programs included in other health, other education, and so on (a–g).

+ Less than $500 million.

Future Trends, 2012–2022

We examine both the near-term future, which is strongly influenced by the exhaustion of funding under the American Recovery and Reinvestment Act, and longer-term projections, which are shaped by broad budgetary trends. As noted in the methods section, our projections for the future are largely based on the Congressional Budget Office's March 2012 baseline, supplemented by tax projections from other sources and our assumptions about the shares of individual programs allocated to children. These projections incorporate the spending restrictions in the Budget Control Act, except one special analysis that shows how spending would change without such restrictions. As in the two previous sections, we start by examining children's expenditures in the aggregate and in relation to the entire budget, then examine individual components of children's expenditures in more detail.

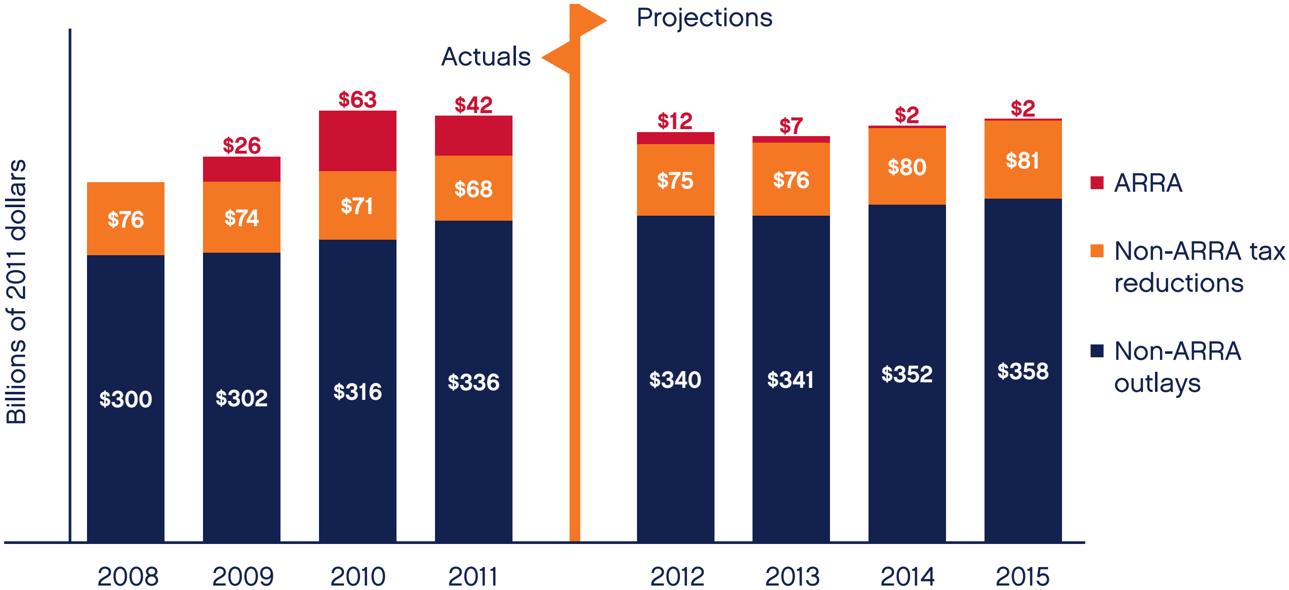
Children's Expenditures in the Immediate Future: The Effects of ARRA

As the temporary boost in spending under ARRA ends, federal spending on children is projected to fall. In the absence of legislative action, CBO baseline projections suggest that federal outlays on children will fall 6 percent in 2012 and an additional 2 percent in 2013. Only once in the last half-century was there a similar decline, when real outlays on children fell by 7 percent between 1980 and 1985. Outlays are projected to drop by $24 billion in 2012 and another $6 billion the following year (falling from $376 to $346 billion between 2011 and 2013, as shown in figure 1). This substantial decline in outlays will be partially offset by a modest rise in the dollar value of tax breaks for families with children, but even so, total expenditures on children also are projected to fall over the next two years (from $445 to $424 billion).

These declines, in both outlays and total expenditures, are driven by the exhaustion of funds under the American Recovery and Reinvestment Act. ARRA expenditures on children are projected to fall sharply, from $42 to $12 billion between 2011 and 2012, then to $7 billion in 2013 and $2 billion in subsequent years (see figure 14). The areas with the largest drops in ARRA funding are in education (loss of $13 billion, primarily in the State Fiscal Stabilization Fund, Special Education, and Title I/Education for the Disadvantaged), and refundable tax credits (loss of $9 billion in the CTC and EITC). While Congress enacted further temporary expansions in these two areas to partially offset the loss in ARRA funding, namely the Education Jobs fund and a two-year extension of expansions of the ETIC and CTC, the net effect is still a $17 billion decline in total expenditures on children between 2011 and 2012.[13]

By 2014, outlays and total expenditures on children will begin to slowly rise in inflation-adjusted dollars, but this is mainly driven by projected increases in children's health spending through Medicaid and the children's share of the new health insurance subsides assumed to occur under the Patient Protection and Affordable Care Act of 2010. Even with this projected rise in spending on children's health, however, projected outlays on children will not reach 2011 levels until the very last year of the projection period (2022)—and, of course, non-health-related expenditures will be significantly lower.

Figure 14 The Effects of ARRA on Children's Expenditures, 2008–15



Source: The Urban Institute, 2012. Authors' estimates based on data from the *Budget of the U.S. Government Fiscal Year 2013* and previous years, CBO projections, and Urban-Brookings Tax Policy Center Microsimulation Model projections.

Ten-Year Projections of Federal Spending, in Total and on Children

…children will receive almost nothing out of $1 trillion growth in federal outlays projected over the next decade…

Total federal outlays are also projected to fall in 2012 and 2013, but by 1 percent in 2012 and 3 percent in 2013. As with children's outlays, total federal outlays are coming down from peak levels during the recession. They are also affected by the caps on spending and automatic-spending reductions, scheduled to begin in 2013 under the Budget Control Act. Beginning in 2014, total outlays begin a steady climb, rising much faster than children's outlays. By 2022, total federal outlays will be $965 billion higher than today, while children's outlays essentially stay constant (an increase of only $6 billion) over the same period. In other words, children will receive almost nothing out of $1 trillion growth in federal outlays projected over the next decade (see table 4) and, outside of health, will suffer significant declines.

As shown in table 4, the non-child portions of Medicare, Medicaid, and Social Security will consume 91 percent of the anticipated $965 billion increase in federal spending between 2011 and 2022. Growing interest payments on the national debt represent 28 percent of the total change in spending. Together, the escalating costs of the three largest entitlements and interest payments consume more than 100 percent of the anticipated change in spending between today and 10 years from now, requiring cuts from the remaining areas of the budget, which encompasses spending on children, defense, and all other government programs. Under the CBO baseline, which incorporates the BCA restrictions, spending on both defense and the broad category of "other" spending is projected to fall, while children's spending remains relatively stable.

Table 4 Share of Projected Change in Federal Outlays from 2011 to 2022 Going to Children and Other Major Budget Items (billions of 2011 dollars, except where noted)

Major budget items	2011	2022	Change (2011–22)	Share of change
Social Security, Medicare, and Medicaid	1,464	2,340	876	91%
Interest on the debt	230	500	270	28
Children	376	382	6	1
Defense	711	607	-104	-11
All other outlays	822	738	-83	-9
Total growth	3,603	4,568	965	100%

Source: The Urban Institute, 2012. Authors' estimates based on data from the *Budget of the U.S. Government Fiscal Year 2013* and CBO projections.

Note: Percent changes do not sum across columns because they are measured relative to 2011expenditures in the first two columns and relative to interim 2022 expenditures in the third column.

* Less than - 0.5 percent.

With rising spending overall and little change in spending on children, the share of the federal budget spent on children is projected to fall by almost one-fifth, from 10.4 percent to 8.4 percent of total outlays, by the end of the projection period, assuming no change in policy or law. Put another way, although significant permanent growth in the budget is scheduled under current policies, children do not share in that growth.

8.4%

…the share of the federal budget spent on children is projected to fall by almost one-fifth, from 10.4 percent to 8.4 percent of total outlays…

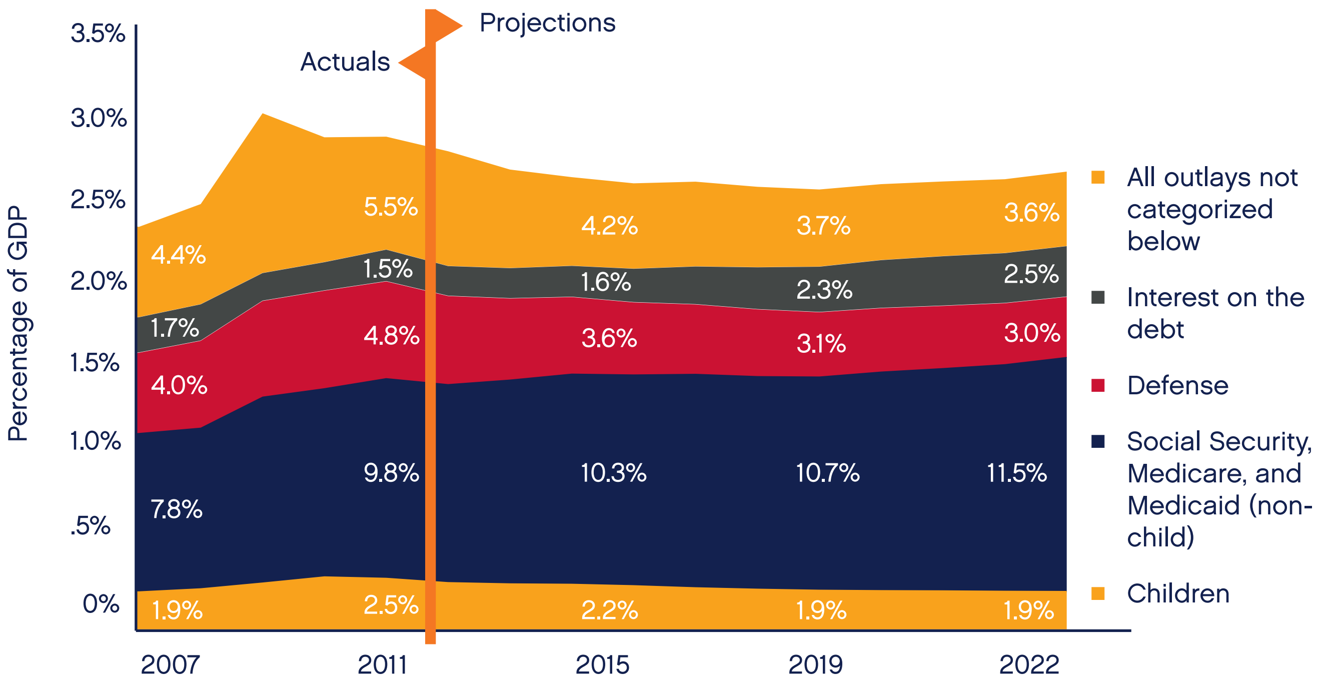
Children's spending also is projected to decline as a share of the economy, from 2.5 to 1.9 percent of GDP between 2011 and 2022, as shown in figure 15. Defense spending also falls under these projections, from 4.8 to 3.0 percent of GDP, and spending on "other areas" drops substantially, from 5.5 to 3.6 percent of GDP.

In contrast to these projected declines, the portions of Medicare, Medicaid, and Social Security serving the elderly and disabled are projected to increase from 9.8 to 11.5 percent of GDP by 2022. This growth stems from several factors, including a large increase in the number and share of the population that is elderly as the baby boom generation ages (baby boomers began retiring in 2008) and continued rapid growth in health care costs, even after incorporating the estimated effects of health care reform.

The strong growth in the big three entitlement programs places upward pressure on total governmental outlays, which outpace federal revenues in every year of the projection period. As the national debt continues to grow along with interest rates, interest payments are projected to increase, from 1.5 percent of GDP in 2011 to 2.5 percent in 2022. Under current policies, spending on interest payments on the debt will exceed spending on children from 2017 onward, and by larger amounts each year. Interest payments on the debt would exceed investments in children even earlier (as, indeed, was projected in last year's *Kids' Share* report) except that interest rates are projected to be so low over the next few years.

Policies do not stay constant, so these 10-year projections of spending on children and other components of the federal budget are inherently uncertain. Even so, the projections provide a baseline by which to consider the path before us.

Figure 15 Actual and Projected Federal Outlays on Children and Other Major Items, 2007–22



Source: The Urban Institute, 2012. Authors' estimates based on data from the *Budget of the U.S. Government Fiscal Year 2013* and previous years and CBO projections.

Note: Social Security, Medicare, and Medicaid category excludes spending already captured as children's spending.

Children's Expenditures by Category in 2022

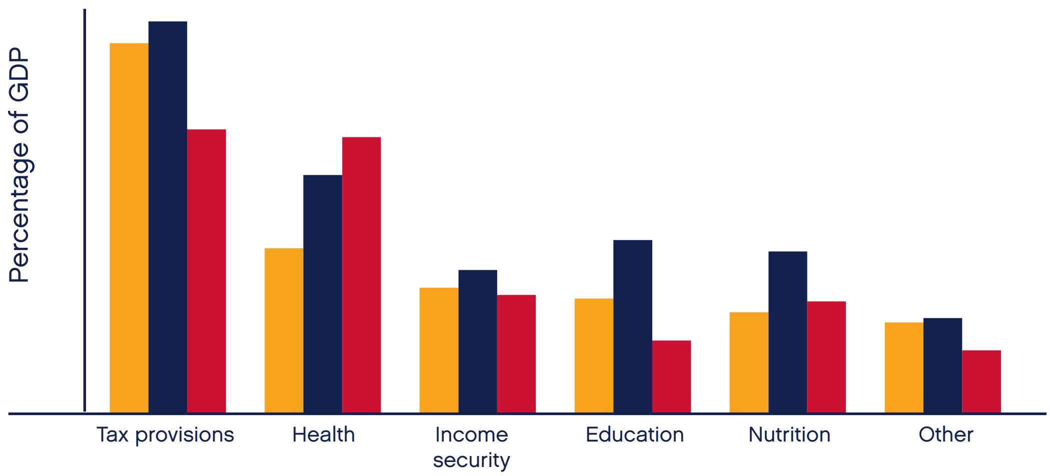
Total expenditures on children are projected to fall relative to the size of the economy, with outlays falling from 2.5 to 1.9 percent of GDP, as noted above. Total expenditures, including both outlays and tax expenditures, are projected to fall from 3.0 to 2.3 percent of GDP, a decline of 23 percent. Excluding health spending, children's expenditures are projected to decline by even more, 32 percent, relative to the economy.

Children's health, which represents about one-tenth of all federal spending on health, is the one area where children's expenditures are projected to be higher in 2022 than 2011 (Hahn et al. 2012). Most of the increase occurs after 2015, when the post-recession decline in the number of children qualifying for Medicaid is overtaken by rising health care costs. Implementation of the new health insurance exchanges enacted under the ACA contributes to the modest increases in children's health spending during the latter half of the decade. These health projections are, of course, subject to considerable uncertainty, given the difficulty of projecting the effects of the Affordable Care Act, including take-up rates and future legislative and judicial actions.

Tax expenditures for children's health are not included in these estimates of children's health spending. As noted in the text box on page 25, the children's share of employer-sponsored health insurance amounts to about $19 billion in tax expenditures in 2011. Tax expenditures on children's health may decline and partially offset the increase in direct spending, if there are future declines in employer-sponsored health insurance.

Expenditures in all other categories are projected to decline compared with not just 2011, but, in most cases, 2007 (before the recession). Over the next decade, the projected declines are sharpest in tax provisions and education, as shown in figure 16. As a percentage of GDP, federal resources in these two areas fall not only below 2011 levels, but also below pre-recession levels. The Child Tax Credit is not automatically adjusted for inflation over time, meaning its value will decline substantially. It would be cut further, below the levels shown in figure 16, if the CTC portion of the Bush-era tax cuts are not extended.

Figure 16 Components of Expenditures on Children, 2007, 2011, and 2022



	Tax provisions	Health	Income security	Education	Nutrition	Other
2007	0.91%	0.41%	0.31%	0.29%	0.25%	0.23%
2011	0.96%	0.59%	0.36%	0.43%	0.40%	0.24%
2022	0.70%	0.68%	0.29%	0.18%	0.28%	0.16%

Source: The Urban Institute, 2012. Authors' projections based on the *Budget of the U.S. Government Fiscal Year 2013*, CBO's *Budget and Economic Outlook, 2012–22*, and Urban-Brookings Tax Policy Center Microsimulation Model.

Note: Other includes early education and care, social services, housing, and training, as detailed in table 5.

The drop in federal education funding stems from several factors. First, ARRA funds, which accounted for 30 percent of education outlays in 2011, are completely gone well before 2022. Second, education programs are almost all discretionary, and discretionary spending programs are generally assumed to increase with inflation, but not for growth in population; thus, their baseline projections show declines relative to most mandatory programs, as well as to GDP. Finally, discretionary programs this year are assumed to grow by less than inflation because of the caps and automatic spending reductions under the Budget Control Act. In total, federal spending on education is projected to decline from $64 billion in 2011 to $37 billion in 2022 under current law, or to $42 billion if the BCA restrictions were lifted.

The Child Tax Credit is not automatically adjusted for inflation over time, meaning its value will decline substantially.

Effects of the Budget Control Act on Spending for Children

The Budget Control Act of 2011 places caps on defense and non-defense discretionary spending; in addition, it requires automatic spending reductions ("sequestration") in both mandatory and discretionary programs to achieve an additional $1.2 trillion in spending cuts over 2013–21 (CBO 2011). While the BCA has a considerable impact in certain areas (e.g., education, early care, training, and housing), it has only a small impact on children's spending overall because of factors specific to the design of these budget cuts: heavy reliance on cuts in defense, and exemption of most mandatory programs from automatic spending reductions.

Under the BCA, defense would bear half of all the automatic spending reductions (over and above the caps on defense). At the same time, a long list of mandatory programs is exempted from sequestration, including Social Security, veterans' programs, refundable tax credits and many low income-programs: SSI, TANF, Family Support Programs (which include Child Support Enforcement), Medicaid, CHIP, SNAP, Child Nutrition, Payments for Foster Care and Permanency, and the Child Care Entitlement to States (2 USC Section 905). As a result, nearly three-quarters of children's outlays are exempt from the BCA.

Table 5 Expenditures on Children in 2011 and 2022, with Effects of Budget Control Act

	Actual 2011	Interim 2022 (before BCA)	Final 2022 (with BCA)	2011 to interim 2022	2011 to final 2022	Effects of BCA in 2022
Category	(billions of 2011 dollars)			(percent change)		
Tax provisions	144	143	143	-1	-1	0
Health	88	139	139	58	58	*
Income security	53	60	60	13	13	0
Education	64	42	37	-35	-42	-10
Nutrition	60	57	57	-4	-5	-1
Other spending on children	35	35	32	-2	-9	-7
Housing	10	10	9	4	-7	-10
Early education and care	14	13	12	-13	-20	-8
Social services	10	11	10	9	7	-2
Training	1	1	1	-12	-21	-10
Total expenditures on children	445	476	468	7	5	-2
Memo: Total outlays on children	376	390	382	4	2	-2

Source: The Urban Institute, 2012. Authors' estimates based on data from the *Budget of the U.S. Government Fiscal Year 2013* and CBO projections.

Note: Percent changes do not sum across columns because they are measured relative to 2011 expenditures in the first two columns and relative to interim 2022 expenditures in the third column.

* Less than - 0.5 percent.

The other quarter of children's programs, however, does not fare so well. Spending on education, children's housing benefits, and youth training would be cut by an additional 10 percent in 2022 relative to interim projections without the BCA (see table 5). Nutrition, early education and care, and social service programs show cuts of less than 10 percent because they include a mix of both affected and exempted programs. For example, Head Start and the discretionary portion of the Child Care and Development Block Grant are subject to the same reduction as other discretionary programs, but the mandatory portion of child care assistance is not affected by either the discretionary caps or the automatic spending reductions.

Of course, as noted in the methods section, Congress need not cut every discretionary program by the same amount. It could choose to meet the caps in other ways, such as eliminating some programs while increasing funding for others. That is, these projections simply provide a sample spending path, assuming all non-defense discretionary programs are reduced proportionally.

Also, repealing the BCA would have a different impact on children's discretionary outlays in each year, with, for example, an estimated 5 percent impact in 2013 and a 10 percent impact in 2022.

With about a quarter of the children's budget reduced by 10 percent and three-quarters largely exempt, children's spending in the aggregate is cut about 2 percent as a result of the Budget Control Act. The effect of the BCA on total federal outlays is larger—a cut of roughly 4 percent—largely because of projected cuts in defense spending. As a result, while the Budget Control Act reduces children's spending in real dollars, it results in a slight increase in children's spending as a *share* of total outlays (from roughly 8.2 percent without the BCA to 8.4 percent with the BCA, in 2022). In summary, the particular budget controls in this law spare children's programs from deep cuts, but they do not change the downward path of children's spending relative to the overall budget or the total economy: children's spending is projected to fall to 1.9 percent of GDP in 2022 with or without implementation of this law.

This analysis of the Budget Control Act highlights the value of tracking children's spending across all programs and from multiple dimensions, looking closely at the details of budget agreements, and monitoring the net result in total dollars, as a share of the total budget, and as a share of GDP.

Conclusion

This year, federal expenditures on children fell for the first time since the 1980s in total dollars, as a result of the phaseout of ARRA. Children's spending also fell as a share of the federal budget and as a share of the economy. Moreover, federal expenditures fell at a time when state and local spending on children also was falling and when child poverty rates have not yet come down from recession-level highs.

Declines in spending on children scale back our investments in our future workers, parents, and economy.

An even sharper decline in federal dollars spent on children is expected in 2012, also largely as a result of the conclusion of ARRA. For different reasons, projections over the next decade also show lower spending on children, with the possible exception of health spending, where children share modestly in the large growth in health care spending throughout the population. Declines in spending on children scale back our investments in our future workers, parents, and economy.

The experience of the past several years highlights how children's benefits and services are affected by broader economic and budgetary forces. To mitigate the effects of the recent recession, federal spending was increased under ARRA, which included funds targeted toward children. Those funds are now phasing out while state and local budgets remain limited. In the longer term, spending on interest and health and retirement programs, along with inadequate revenues to pay our bills in good times and bad, are squeezing out all else in the federal budget. Under current law, children will not share in any projected growth in outlays over the next decade. Excluding health spending, children's expenditures will decline even in absolute dollars. Relative to other outlays and uses of our national income, children are scheduled to become an ever-declining priority.

One attempt to address this longer-term imbalance, the Budget Control Act, has relatively little impact on the overall story for children, although it selectively hits hardest some of the programs most likely to be counted as investments. Education funding is vulnerable on all fronts—expiring ARRA funding, limited state and local budgets, and spending restrictions of the BCA—and this reduction in education could have serious implications for how well our children and our nation are prepared for the future.

Other budgetary reform packages are likely to have a much larger impact on expenditures on children, depending on the specifics. Critical details include which types and broad categories of spending are cut most heavily (e.g., defense or non-defense, mandatory or discretionary), which programs are exempted from cuts (e.g., retirement programs and/or low-income programs), and whether changes in revenues are part of the deficit-reduction package.

As the nation grapples with its financial challenges, this annual report tries to keep an eye on how children are affected as resources are marshaled to meet our large-scale challenges. As recent experience demonstrates, economic stimulus packages and grand budgetary reforms—as well as ongoing annual appropriations actions and scheduled growth in mandatory programs—all have an impact on children's expenditures.

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For a complete listing of references and data sources used, see the separate Kids' Share Data Appendix and its reference section, available online at http://www.urban.org/publications/412599.html.

Endnotes

1. The earlier reports include Isaacs et al. (2011); Isaacs et al. (2010); Isaacs et al. (2009); Carasso et al. (2008); Carasso, Steuerle, and Reynolds (2007); and Clark et al. (2000). The children's budget reports have been expanded to include analyses by family income (Vericker et al. 2012) and age of child (Macomber et al. 2010; Macomber et al. 2009; Kent et al. 2010; Vericker et al. 2010). A new report updating expenditures by age of child will be released later this year.

2. The *Data Appendix to Kids' Share 2012* is available at http://www.urban.org/publications/412599.html.

3. Some states do increase unemployment benefits for families with children through a dependent benefit. As explained in a supplemental analysis found in the text box on page 25, our ballpark estimate is that about 1 percent of all unemployment benefits might be reclassified as spending on children, amounting to $1.2 billion in 2011 and considerably less in years with lower unemployment.

4. The two estimates, for example, use similar definitions of children (as those under 19), and the Rockefeller Institute researchers include the state earned income tax credit, in part to be consistent with the federal analysis. However, much of the state and local expenditure data cover a July–June rather than an October–September fiscal year. Moreover, because of the challenge of collecting data across 50 states, the Rockefeller report focuses on only a dozen major programs, including elementary and secondary education, state programs associated with major federal programs (Medicaid, the State Children's Health Insurance Program [SCHIP], Maternal and Child Health Bureau, TANF, Child Support Enforcement, child care, child welfare, etc.), and state earned income tax credits.

5. To calculate the children's share of the tax expenditure budget, we first have to determine a total tax expenditure budget. To do this, we sum OMB's estimates of tax provisions for individuals and corporations, although such provisions are not strictly additive because of interaction effects. Tax expenditures identified by OMB totaled approximately $1.07 trillion in 2011. To this we add $35 billion ($0.35 trillion) for the dependent exemption, which OMB does not classify as a special tax provision resulting in a tax expenditure but instead views as part of the overall tax structure. We do include the dependent exemption in our analyses of expenditures on children.

6. The federal match rate dropped gradually over the year, from the enhanced ARRA rate for the first quarter of 2011, to an intermediate rate for six months, to the regular Medicaid match rate for the last quarter of the fiscal year.

7. The state estimate by researchers at the Rockefeller Institute does include the value of state earned income tax credit in states that have such credits. Recall that the bulk of the federal Earned Income Tax Credit (the refundable portion) is included in the federal estimate. See endnote 4 for more on differences between the state/local and federal estimates.

8. The federal spending includes estimates for five major federal programs (Social Security, Medicare, Medicaid, SSI, and SNAP) and rougher estimates of nine smaller programs included in a CBO study of federal spending on the elderly (Civilian Retirement, Military Retirement, Veteran's Compensation and Pensions, Annuitants' Health Benefits, Special Benefits for Coal Miners and Black Lung, Veterans' Medical Care, housing, Administration on Aging programs, and Low Income Home Energy Assistance). The state estimate is based on elderly spending on Medicaid and state supplementation of SSI payments, ignoring any other small sources of state spending on the elderly.

9. As noted in the methods section, our state and local spending estimates for 2009–11 entailed combining data from multiple sources and charting five different alternate scenarios for local education spending, which is the largest element with missing data. Our lowest projection assumed local education spending dropped twice as much as state education spending over the two years, while our highest projection assumed local spending increased to offset the drop in state spending. Under all five paths, total state/local spending declines between 2009 and 2011 and the decline is large enough that total spending shows relatively little change between 2009 and 2011. In figure 6, we show the path that assumes local education spending declines by the same percentage as state spending across the full two-year period, although with somewhat different timing, as detailed in the data appendix.

10. Our analysis of employment in the local public education sector was inspired by analyses conducted by the Rockefeller Institute (Boyd and Dadayan 2010). We thank Lucy Dadayan for providing us with copies of the BLS data series used to project local public-sector employment.

11. For example, a cut in tax rates from 28 to 25 percent would reduce the value of a $3,500 exemption from $980 to $785, thereby reducing the tax advantage of being a taxpayer with a child (relative to taxes for childless taxpayers) and, thus, child-related tax expenditures. This does not mean, however, that families with children were paying higher taxes than before the tax cut, just higher taxes relative to childless taxpayers.

12. Information on how we classified each program by eligibility limitation (means-tested or not), as well as benefit type (cash vs. in-kind) and spending type (mandatory vs. discretionary), is provided in the data appendix.

13. The two-year extension of the EITC and CTC expansions, enacted in December 2010, is not classified as an "ARRA effect," following CBO's treatment of this extension.

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2100 M Street, N W
Washington, DC 20037
202 833-7200
www.urban.org