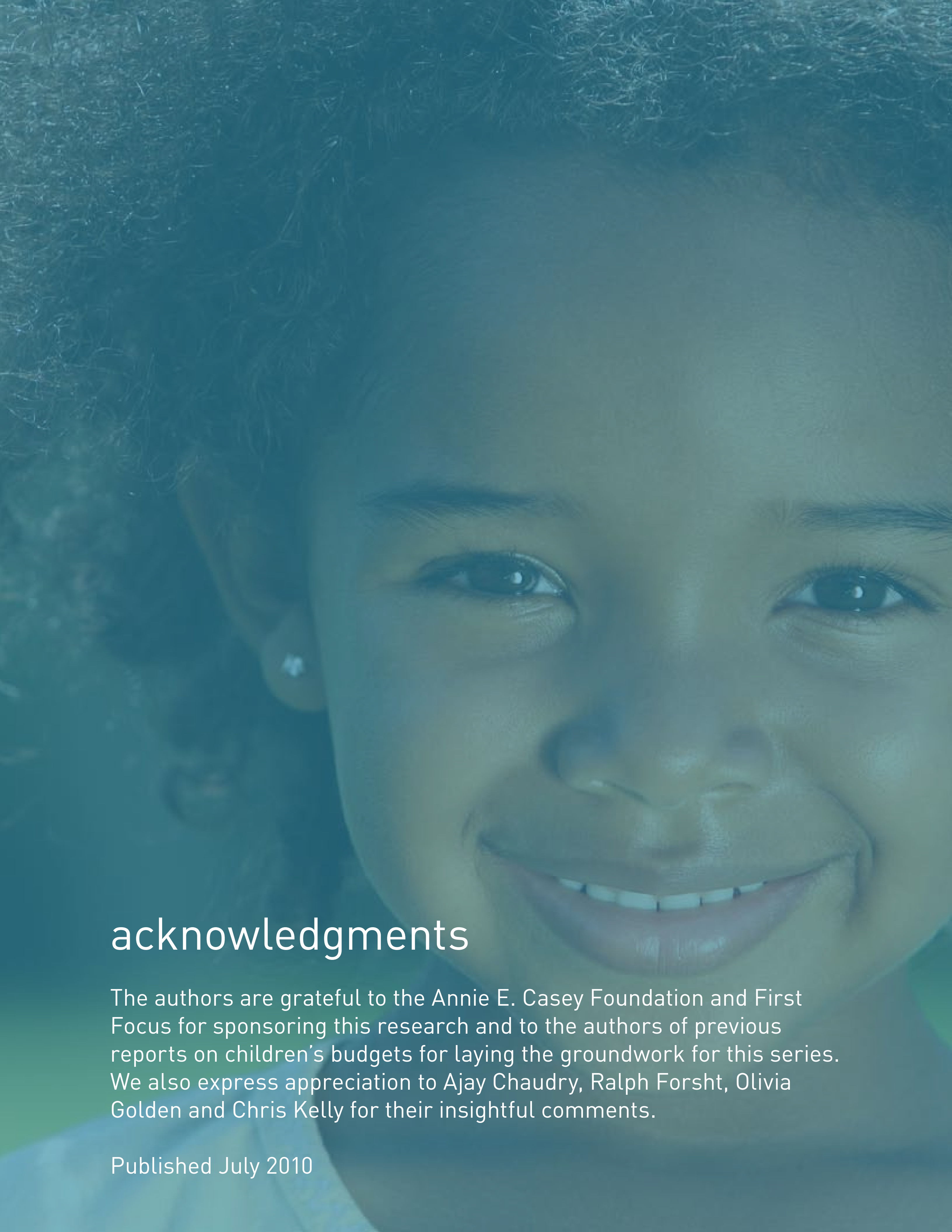
kids' share **2010**

report on federal expenditures on children through 2009

JULIA ISAACS, THE BROOKINGS INSTITUTION | C. EUGENE STEUERLE, THE URBAN INSTITUTE
STEPHANIE RENNANE, THE URBAN INSTITUTE | JENNIFER MACOMBER, THE URBAN INSTITUTE



acknowledgments

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executive summary

Federal budget outlays totaled $3.5 trillion in 2009, of which somewhat less than 10 percent ($334 billion) was devoted to children. Despite increased spending on children under the American Recovery and Reinvestment Act of 2009 (ARRA), the kids' share of total outlays actually fell modestly to 9.5 percent in 2009, down from 9.8 percent the previous year. The children's share of the tax expenditure budget also declined between 2008 and 2009, from roughly 9 to 8 percent.

This fourth annual *Kids' Share* report examines federal expenditures on children during an unusual year, when unemployment averaged 8.5 percent and total federal spending hit a post–World War II high of nearly 25 percent of the economy. This year's report adds a special focus on the effects of ARRA, with new analyses showing how the infusion of funds appropriated in 2009 will spend down over the next few years under current law. As our analysis shows, many children's programs are projected to reach peak spending in 2010, after which outlays will drop off—assuming that temporary ARRA outlays end as scheduled and other policies continue unchanged. Our analysis does not include the projected effects of the health reform legislation passed in 2010, which are not yet incorporated in Congressional Budget Office (CBO) projections.

While federal spending in total and on children climbed in 2009, much of the Recovery Act's spending substituted for or cushioned spending cuts in states and localities, hard-hit by the recession. We do not know how much of the increased federal spending on children merely offset reductions in state spending on children, and therefore we are unable to say whether total federal-state spending on children increased or decreased in 2009. We will be able to provide this analysis in the future but are limited by the state and local data available at the time of this report to an analysis of total spending on children in 2007. Over the 1998 to 2007 period, which saw a recession but not one with the same impact on state revenues, the state share of spending on children has varied from 67 to 71 percent, according to our supplemental analysis of state and local expenditures.

After an initial section explaining the methodology for estimating children's expenditures across more than 100 federal programs and tax provisions, the report presents findings in three major areas, corresponding to the present, the past, and the future. For the present, we examine outlays and tax expenditures in 2009, relying on the detailed budget data released in February 2010. Our analysis of the past includes a comparison of children's spending to the budget as a whole from 1960 to 2009, as well as trends within children's spending. Our future projections extend from 2010 through 2020.

Current Expenditures on Children

Federal spending on children increased between 2008 and 2009, although not as rapidly as the overall increase in spending in this period of recession and extraordinary efforts to shore up the financial and housing sectors. While federal outlays on children rose from $298 to $334 billion (measured in inflation-adjusted 2009 dollars), spending

on children actually fell modestly as a percentage of the total budget, from 9.8 to 9.5 percent. Much of the increased spending on children was due to the American Recovery and Reinvestment Act of 2009, which increased federal outlays on children by an estimated $25 billion in 2009 and $146 billion over 2009–2019, the period covered by the CBO cost estimates. In fact, the children's share of ARRA was more than twice as large as the children's share of the federal budget as a whole.

In addition to outlays from a range of federal programs and refundable tax credits, there was $72 billion in reductions in tax liabilities for families with children. With these tax expenditures, which represent only 8 percent of the total tax expenditure budget, federal expenditures on children totaled $406 billion in 2009.

Half of all children's expenditures are accounted for by four programs: Medicaid and three tax provisions (the child tax credit, the earned income tax credit, and the dependent exemption). In 2008, Medicaid became by far the largest single children's program in the federal budget. Medicaid spending on children grew by an estimated 42 percent between 2008 and 2009 from a combination of enhanced federal funding under ARRA, higher enrollment of needy children in response to the recession and expansions in public coverage, and ever-increasing health care costs. Most other programs grew more slowly but did show higher spending in 2009 than in 2008, a result of the combined effects of the recession and the Recovery Act.

Education received the largest infusion of children's spending under ARRA, $62 billion, of which $10 billion was spent in 2009. Much of the increased federal spending on education in ARRA was in response to declines in state and local expenditures, which account for more than 90 percent of K–12 education funding and two-thirds of total public investments in children. Therefore, it remains uncertain whether total federal-state-local funding for education increased or decreased. Most ARRA funds will be exhausted by 2011, after which federal spending on children will drop markedly, particularly in education.

Total (federal/state/local) public spending on children was $10,642 per child in 2007, split roughly one-third federal and two-thirds state and local. The federal government provides 7 percent of education spending on children, 59 percent of health spending on children, and 88 percent of all other children's spending, a category that includes income security, the refundable portions of the earned income and child tax credits, social services, housing, training, and nutrition.

For comparison, public spending on the elderly was roughly $24,300 per elderly person, or 2.3 times the amount spent per child in 2007. The vast majority of public spending on the elderly is federally funded, primarily through Social Security and Medicare. Looking solely at the federal budget, an elderly person receives seven federal dollars for every dollar received by a child.

Trends in Federal Spending, 1960–2009

Federal budget outlays totaled $3.5 trillion in 2009, of which 9.5 percent, or $334 billion, was devoted to children. In contrast, 36 percent of total outlays, or $1.26 trillion, was allocated to the elderly and disabled portions of Social Security, Medicare, and Medicaid.

Spending on defense relative to the size of the economy has declined dramatically over the past 50 years or so, with an uptick since 2002 because of wars in Iraq and Afghanistan. Meanwhile, domestic spending has increased. Social Security, Medicare, and Medicaid (excluding any money going for children) have increased more than fourfold from 1960, from 2.0 to 8.9 percent of GDP. Outlays on children also have grown, but from a very low base. They more than doubled between 1960 and 1980 (from 0.6 to 1.4 percent of GDP) and increased more gradually after that, reaching 2.0 percent of GDP in 2005. Federal spending on children hit a record high of 2.3 percent of GDP in 2009, largely as a result of the recession and increased investments under ARRA.

While outlays on children have increased in dollars and as a percentage of GDP, children are receiving a smaller share of the domestic federal budget, as shown in a comprehensive analysis that includes children's tax expenditures as well as outlays. Under this measure, the children's share of domestic federal spending—spending that excludes defense and international affairs and adds children's tax expenditures—has actually shrunk over time, from 20 percent in 1960 to 14 percent in 2009. In contrast, spending on the non-child portions of Social Security, Medicare, and Medicaid has doubled, rising from 22 to 44 percent of domestic spending.

Federal budget outlays totaled $3.5 trillion in 2009, of which less than 10 percent ($334 billion) was devoted to children.

The increase in spending on children from 1960 to 1980 resulted from the expansion of federal programs, including introduction of food stamp benefits, Medicaid, Title I Education for the Disadvantaged, public housing, and other programs serving children and families. Since the mid-1970s, however, total spending on these and dozens of other programs benefitting children has risen only moderately as a percentage of GDP, and until ARRA, that growth was solely because of growth in Medicaid spending. Other than Medicaid and ARRA, most of the significant increases in spending on children since the 1990s have occurred through tax provisions, including the expansion of the earned income tax credit in 1993 and the enactment of the child tax credit in 1997.

Our analysis of spending on children distinguishes between mandatory and discretionary spending programs. Over time, mandatory programs, many of which have automatic growth built into them, have grown more than discretionary programs, which are subject to annual appropriations action. In fact, discretionary spending on children declined in real dollars between 2005 and 2008. This downward trend in discretionary spending was reversed in 2009, with the additional appropriations for education, social services, training, and housing programs in the Recovery Act. Somewhat unusually, ARRA expanded both mandatory and discretionary spending in one bill.

Projections, 2010-20

In the near term, federal expenditures on children will continue to expand as a result of the lingering effects of the recession and ARRA. As the ARRA provisions expire, however, we project that spending on children will shrink, falling from 2.3 percent of GDP in 2009 to 1.9 percent of GDP by 2015 and remaining at that level through 2020, if current policies continue unchanged. In contrast to the projected decline in spending on children, spending on the elderly and disabled is projected to rise steadily in real terms, as a percentage of GDP and as a percentage of total spending.

Between 2009 and 2020, total outlays are projected to increase by roughly $1.1 trillion. While these projections do not fully incorporate the additions and subtractions in outlays from health reform or any other legislation passed in the near future, they still provide a baseline by which to consider the path before us. Nearly three-quarters (74 percent) of the anticipated increases in federal spending will be used for automatic growth in Medicare, Medicaid, and Social Security. Growing interest payments on the national debt consume another two-fifths (42 percent). Together, the escalating costs of the three largest entitlements and interest payments will consume more than 100 percent of the anticipated growth in spending over the next 11 years, putting a significant squeeze on other spending. Absent reform, many programs will be cut. While some cuts will occur with the decline in emergency spending under the Troubled Asset Relief Program (TARP), many also involve a relative and sometimes absolute cutback in other government services.

These projections of continued current law and policy suggest that under the "no reform" scenario, children's programs will receive a mere 3 percent of the new funds, with most increases in children's health. Outside health, children's programs will share in essentially none of the additional $1 trillion or more of additional spending over the coming decade. Defense will absorb another 5 percent. Current policy projections also assume large cuts (23 percent of the total) in other unspecified areas of the budget that could carry back over into pressure on children's programs.

Unless current conditions change, the allocation of additional outlays over the next decade suggests a pattern where spending on children declines relative to the economy. This path can be altered, however. Reforms not considered in this analysis—such as the 2010 health reform and any further health reforms, any possible extensions of ARRA, and the proposals in the president's budget regarding education, taxes, and other areas—may alter the picture of outlays spent on children in the future.

introduction

This fourth annual *Kids' Share* report examines federal expenditures on children in 2009, an unusual year, when total federal spending hit a post–World War II high of nearly 25 percent of the economy. Much of the increased spending in 2009 occurred in response to the recession and the government's efforts to stabilize turbulent financial and housing markets. Unemployment averaged 8.5 percent during fiscal year 2009 (October 2008 to September 2009), leaving millions of Americans out of work. This rise in unemployment has significantly affected families with children: one-third (31 percent) of the unemployed are parents with children, and the number of children with a parent seeking work rose to 8.1 million in December 2009, a 67 percent increase from the level it had been two years earlier. The recession also is leading to increases in child poverty. An additional 3.4 million children were receiving food stamps (or what are now called Supplemental Nutrition Assistance Program benefits) in August 2009 than were one year earlier, a 24 percent increase.[1] How did federal spending on children change in response to the increased needs of children and families?

The rise in unemployment has significantly affected families with children; nearly one-third (31 percent) of the unemployed are parents with children.

To answer this question, we turned to a database on federal spending on children that was developed by researchers at the Urban Institute and the Brookings Institution and has served as the basis for a series of children's budget reports.[2] This database tracks federal expenditures on children from 1960 through 2009 on more than 100 federal direct spending and tax expenditure programs. It also includes projections through 2020, built off Congressional Budget Office (CBO), the Office of Management and Budget (OMB), and the Urban-Brookings Tax Policy Center projections of taxes and spending under current policies.

This year, we adapted our methodology to examine in detail the American Recovery and Reinvestment Act of 2009 (ARRA), providing the first-ever analysis of the year-to-year impact of this legislation on federal expenditures on children. As in past reports, our analysis encompasses reductions in taxes as well as direct governmental outlays from federal programs that serve families and children. For the second year, we analyze state and local expenditures to supplement our major focus on federal expenditures. Because of data delays, the analysis of state and local expenditures relates to 2007 and therefore does not yet provide information on state expenditures after state budgets were hit by the recession; we plan to update the analysis in future reports.

After an initial discussion of methodology, our report is organized in three major sections: present, past, and future. The first and largest section focuses on current expenditures on children: federal expenditures in 2009, including the impacts of ARRA, and total (federal/state/local) expenditures in 2007. Our analysis of the past traces how spending on children has compared with other major items in the federal budget since 1960, as well as historical trends within children's spending. Our future projections extend from 2010 through 2020.

The goal of this report is to present a comprehensive portrait in trends in federal spending and tax expenditures on children, with actual data from 1960 through 2009 and projections through 2020. While this portrait contributes to our understanding of how government policies affect children, it leaves unanswered several important questions. In particular, we do not reach conclusions on the efficiency, success, or worth of a particular program or spending level. Nor does our analysis of spending trends on children demonstrate how much need is still unmet. For example, we do not know how the expansion in federal funding in 2009 measures up against increased needs arising from the recession. More generally, we expect that the changes in funding observed between 1960 and 2009 partly reflect the many changes that have occurred in American society over the past half-century. Major trends include changes in maternal work, family size and structure, the size of the child poverty population and its demographic makeup, and changes in private-sector job benefits, including employer-provided health insurance. Measuring needs for services, the efficacy of programs in meeting needs, and how much need is unmet despite spending on children's programs is beyond the scope of this report.

methods

Estimating federal expenditures on children is a difficult exercise. No government report compiles all spending on children in one place; rather, spending is scattered across an array of government programs, and many programs that serve broader populations require estimations of the share directed to children.

We face three primary challenges in estimating federal expenditures on children. First, we must define what spending on children is, a difficult undertaking that can raise 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 population as a whole? And should expenditures include reductions in taxes as well as direct spending programs? Reasonable people may provide different answers to these questions; below we outline how children's spending is identified in our analysis.

Second, we must collect spending data for each of the more than 100 programs and tax provisions that we have identified as benefitting children. And, finally, for programs that serve both children and adults, we must calculate the share of program expenditures that go to children, a task requiring the collection of considerable programmatic data from various sources as well as judgment calls as to how to allocate benefits within families.

Defining and Identifying Programs Benefitting Children

Under our definition of spending on children, a program or tax provision must meet one of the following criteria in order to be included in this analysis (as a whole or in part):

1. Benefits or services go entirely to children (e.g., elementary and secondary education programs, child nutrition, foster care payments); this also includes programs where a portion provides benefits directly to children (e.g., Medicaid, Supplemental Security Income);
2. Family benefit levels increase with the inclusion of children in the application for the benefit (e.g., SNAP/Food Stamps, low-rent public housing); or
3. Children are necessary for a family to qualify for any benefits (e.g., TANF, the child tax credit, the dependent exemption).

Conceptually, we define federal spending on children as the amount families with children receive less the amount, if any, they would receive if they did not have children. We therefore exclude unemployment benefits, which do benefit families with children, but do not generally provide a higher benefit to unemployed parents than to unemployed individuals without children.[3] For the same reason we exclude tax benefits for home ownership, and other benefits where the amount of the benefit received by the adult is not tied to presence or number of children. Our analysis also excludes programs that provide benefits to the population at large (a significant share of whom are children), such as roads, communications, national parks, and environmental protection. We exclude federal spending on college or postsecondary vocational training, focusing instead on spending through secondary school. Partly for data reasons, we also exclude prenatal spending through Medicaid and other federal programs. In general, childhood is defined as extending from birth until a child's 19th birthday.

Our most comprehensive measure of federal expenditures on children includes *reductions in taxes* (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 *outlays* from the federal treasury (i.e., spending from governmental programs as well as the outlay portion of certain tax credits). However, some analyses focus on outlays only, especially when we are comparing children's outlays with other outlay measures that exclude the tax breaks (total government outlays, state and local spending, spending on the elderly). We are careful to note in our report where our analysis focuses on outlays only and where it includes reductions in taxes. Even when the analysis is restricted to outlays, however, it includes portions of the two largest tax provisions affecting children: most of the earned income tax credit and some of the child tax credit is paid out (refunded) to families with negative tax liabilities. That is, government budgetary documents divide spending under these programs into a direct outlay, or refundable portion, and a tax expenditure portion that reduces existing taxes.

FIGURE 1 General Rules for Allocating Program Expenditures to Children

Services delivered by third-party agency (not delivered to families or households)		Benefits delivered to families and households				
All services to children	Services to both children and adults	Individual benefits to both children and adults	Family or household benefits			
			Eligibility limited to families with children		Eligibility not limited to those with children	
			Benefit size dependent on number of children only	Benefit size dependent on number of children and number of adults	Benefit size dependent on presence or number of children	Benefit size unaffected by number of children
100% of expenditures	Share of expenditures	Share of expenditures	100% of expenditures	Share of expenditures	Share of expenditures	No expenditures
Most education programs, child support enforcement, immunization, Head Start, foster care, adoption assistance, child welfare, children and family services programs, child care programs, juvenile justice, missing children, etc.	Medicaid, SCHIP, MCHB, Social Services Block Grant, Community Services Block Grant; Job Corps, vocational and adult education, etc.	Social Security, SSI, Railroad Retirement, etc.	EITC[a], child tax credit, dependent exemption, employer-provided child care, etc.	TANF, etc.	SNAP/Food Stamps, veterans benefits, public housing, low-income home energy assistance, etc.	Unemployment benefits; workers compensation, Making Work Pay and other tax credits not tied to number of children, etc.

Note: The specific allocation procedures vary, depending on available data and type of benefit provided by specific programs. See the data appendix for further details, particularly on calculating the children's share of expenditures when benefits are shared between adults and children.

[a] Spending on childless earned income tax credit (EITC) units (3 percent of total) is excluded.

Collecting Expenditure Data

Once we have defined which programs to include, we collect spending data for each program, drawing primarily from the federal budget of the United States government (fiscal year 2011 and past years), its appendices, and special analyses for historical data and projections. Our database includes estimates of federal expenditures on children for five-year intervals from 1960 to 1995 and annually from 1996 to 2009. For most programs, we start with outlay estimates from the *Appendix to the Budget of the U.S. Government* or, in the case of tax expenditures, from the *Analytical Perspectives* volume of the budget. The 2009 expenditure estimates released in this year's report are based on detailed spending information released in February 2010 in the *Appendix to the Budget of the U.S. Government* for fiscal year 2011. All budget numbers presented in this report represent fiscal years and are expressed in 2009 dollars, unless otherwise indicated.

We also have estimates of state and local spending annually from 1998 to 2007, drawn from the Rockefeller Institute State Funding Database. Consultations between the authors of this report and researchers at the Rockefeller Institute have increased consistency between the two sets of estimates, but some differences remain.[4]

Calculating Share Spent on Children

For programs that serve children only, we assign 100 percent of program expenditures (benefits and associated administrative costs) to children, whether the expenditure is a direct service to children (e.g., education) or a child benefit paid through parents or guardians (e.g., SSI disabled children benefits). Where a program provides direct services to both children and adults (e.g., Medicaid), we calculate the percentage of program expenditures that goes to children. In the more difficult case 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. For example, in a two-child, one-adult family, two-thirds of any public assistance to the family would go to the children and one-third to the adult.

We put significant effort into estimating the portions of large programs, such as SNAP/Food Stamps, Medicaid, or Supplemental Security Income, that go just to children. For these calculations, the most frequently used data sources are the House Ways and Means Committee's Green Book (various years), the Annual Statistical Supplement to the Social Security Bulletin (various years), reports from the agencies that administer the programs, and discussions with agency staff. We also rely on unpublished tabulations of administrative or survey data generated by ourselves or other researchers.

Our approach to defining spending on children and estimating the children's share of spending is summarized in figure 1, which also provides examples of specific programs included in our analysis. (For a full list of spending and tax programs, see table 1, which lists three dozen major programs directly in the table and dozens of smaller programs in the notes.)

While we attempt to apply general rules consistently across all programs, many programs present specific challenges, which are discussed in more detail in the *Data Appendix to Kids Share 2010: Report on Federal Expenditures on Children through 2009*, a separate publication that provides data sources and methodology used in estimating current and projected expenditures for each program included in our analysis.[5] As an example, while we have a general rule of defining children as residents of the United States under age 19, we make exception to this rule for programs that collect programmatic data under different definitions (e.g., Social Security and Supplemental Security Income define children as under 18).

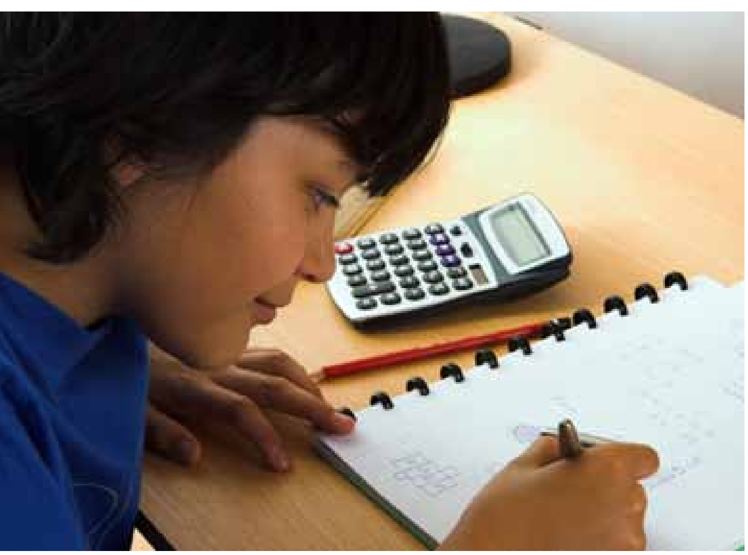
Changes in Methods in This Year's Report

We made minor changes to the list of programs included in our analysis. Our largest addition was to expand the tax provisions benefitting children to include the new Qualified Bonds for School Construction, established under ARRA, as well as the pre-existing Qualified Zone Academy Bonds. When new programs are enacted or older programs are brought to our attention, we review the program eligibility rules to see whether the program's benefits fit with our definition of spending on children, and we roughly estimate spending on children to determine whether the program has sufficient spending on children (at least $50 million in real dollars in any year) to justify the time needed to add to our analysis, including the historical database. This year, we dropped a few smaller programs to remain consistent with this general rule; again, these and other minor changes are detailed in the data appendix.

Our most significant methodological challenge this year was to estimate the children's share of spending under the American Recovery and Reinvestment Act by year. Such information is not available in the *Appendix to the Budget of the U.S. Government*, which does not separate out outlays attributable to the Recovery Act from regular program outlays. Nor was there sufficient programmatic detail in the CBO estimate produced in February 2009 when the bill was enacted. We therefore requested special tabulations from the CBO, detailing its outlay projections for the regular and ARRA pieces of programs for 2010-19. While these tabulations did not directly tell us estimated spending in 2009, we usually could estimate 2009 spending from the 2010-19 projections or from other sources. In addition, we estimated how much of each program increase should be allocated to children, generally relying on the children's share calculations used in our overall estimates.

Methods for Projections

Our projections for children's spending in the future are made under a current policy or baseline scenario that assumes continuation of current law in some areas and continuation of current policy in others. The latter mainly involves programs that are scheduled to expire (discretionary or mandatory) but, because of continual reenactment, are not expected to expire. Our estimates do not yet include the impact of the health reform bill enacted on March 23, 2010; we plan to build the impact of this recent and sweeping legislation into our report next year.[6] Except for the extension of certain expiring tax provisions, we do not assume enactment of any legislative proposals that were not enacted before January 2010; this means that our baseline projections assume expiration of ARRA provisions as under current law and do not incorporate the changes adopted in 2010 or proposed in President Obama's FY 2011 budget.



In general, our projections follow the economic and programmatic assumptions in the CBO's *Budget and Economic Outlook*, FY 2010–20 and updated baseline projections from *An Analysis of the President's Budgetary Proposals for Fiscal Year 2011*. In the mandatory spending area, the CBO baseline projections assume a continuation of current law and a reauthorization of expiring programs. In the case of some larger programs like 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. For most other mandatory programs, we use CBO baseline projections for the program as a whole and assume that the children's share of spending within each program will remain constant from 2009 to 2020.

It is not possible to make detailed programmatic projections for discretionary programs, whose levels are set annually by congressional appropriations committees. Instead, we assume an across-the-board increase for inflation, consistent with the global growth in domestic discretionary spending under the CBO baseline, adjusted to exclude spending from ARRA. For the ARRA portion of spending, we relied on CBO tabulations of ARRA spending by program, showing how the 2009 appropriation spends out over time.

Finally, in the area of taxes, we use the Urban-Brookings Tax Policy Center Microsimulation Model to estimate the larger tax provisions, and we rely on the administration's estimates in the *Analytical Perspectives* volume of the budget for the smaller tax provisions. We adjust the administration's tax expenditures for the difference between OMB and CBO projections of GDP, so all our projections are consistent with CBO projections for economic and budgetary growth. We differ from the strict CBO "current law" baseline, however, in that we assume an extension of the individual income tax provisions included in the 2001 and 2003 tax bills (including the $1,000 level for the child tax credit), maintain the estate tax at its 2009 parameters, extend the patch to the alternative minimum tax at its 2009 parameters, and index the AMT exemption, rate bracket threshold, and phase-out exemptions to inflation.

current expenditures on children

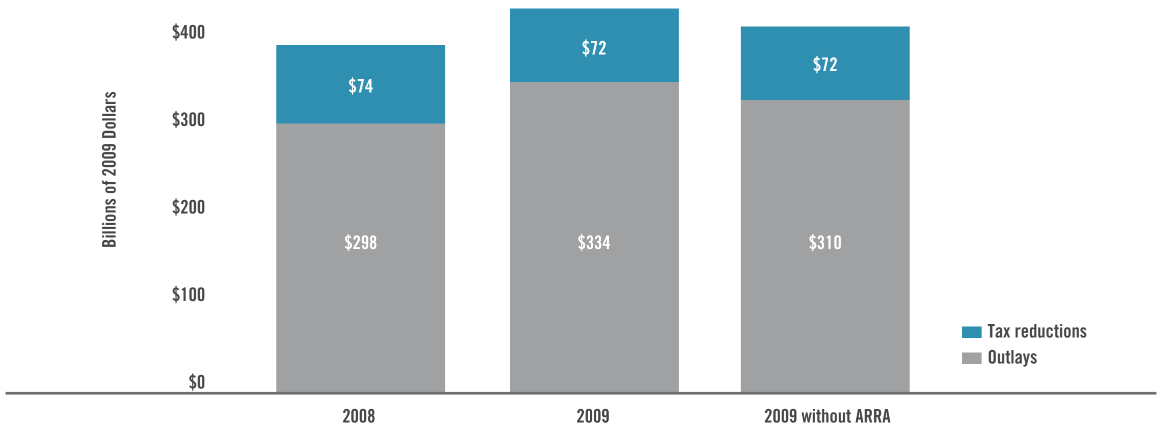
Federal outlays on children increased from $298 to $334 billion between 2008 and 2009, largely as a result of the American Recovery and Reinvestment Act of 2009, which increased outlays on children by an estimated $25 billion in 2009. Despite the increase in federal outlays on children, the share of the total federal budget devoted to children declined modestly, from 9.8 to 9.5 percent of total outlays. That is, while spending was increasing on children, it was increasing even more rapidly on other parts of the federal government, largely because of the recession and governmental efforts to bolster the financial, housing, and automotive sectors.

In addition to outlays from a range of federal programs and refundable tax credits, there was $72 billion in reductions in tax liabilities for families with children, as shown in figure 2. This represents only 8 percent of the roughly $900 billion individual tax expenditure budget.[7] Together, federal expenditures on children totaled $406 billion, of which 82 percent was outlays and 18 percent was tax savings for families with children.

Children's Expenditures by Program and Category

Ten programs account for three-quarters of the total $406 billion in expenditures on children in 2009, with many of these programs showing substantial growth between 2008 and 2009 (see figure 3 for a graph of the 10 largest programs and table 1 for comparison of program expenditures in 2008 and 2009). We estimate that Medicaid spent nearly $74 billion in medical services for children in 2009, a $22 billion or 42 percent increase over 2008. It now surpasses the child tax credit as the

FIGURE 2 Federal Outlays and Tax Expenditures on Children in Fiscal Years 2008 and 2009



Source: The Urban Institute and The Brookings Institution, 2010. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2011.*

While some of the dramatic growth in Medicaid comes from ARRA... much of the program growth was driven by increased enrollment of needy children in response to the recession and by expanded public coverage, as well as ever-increasing health care costs.

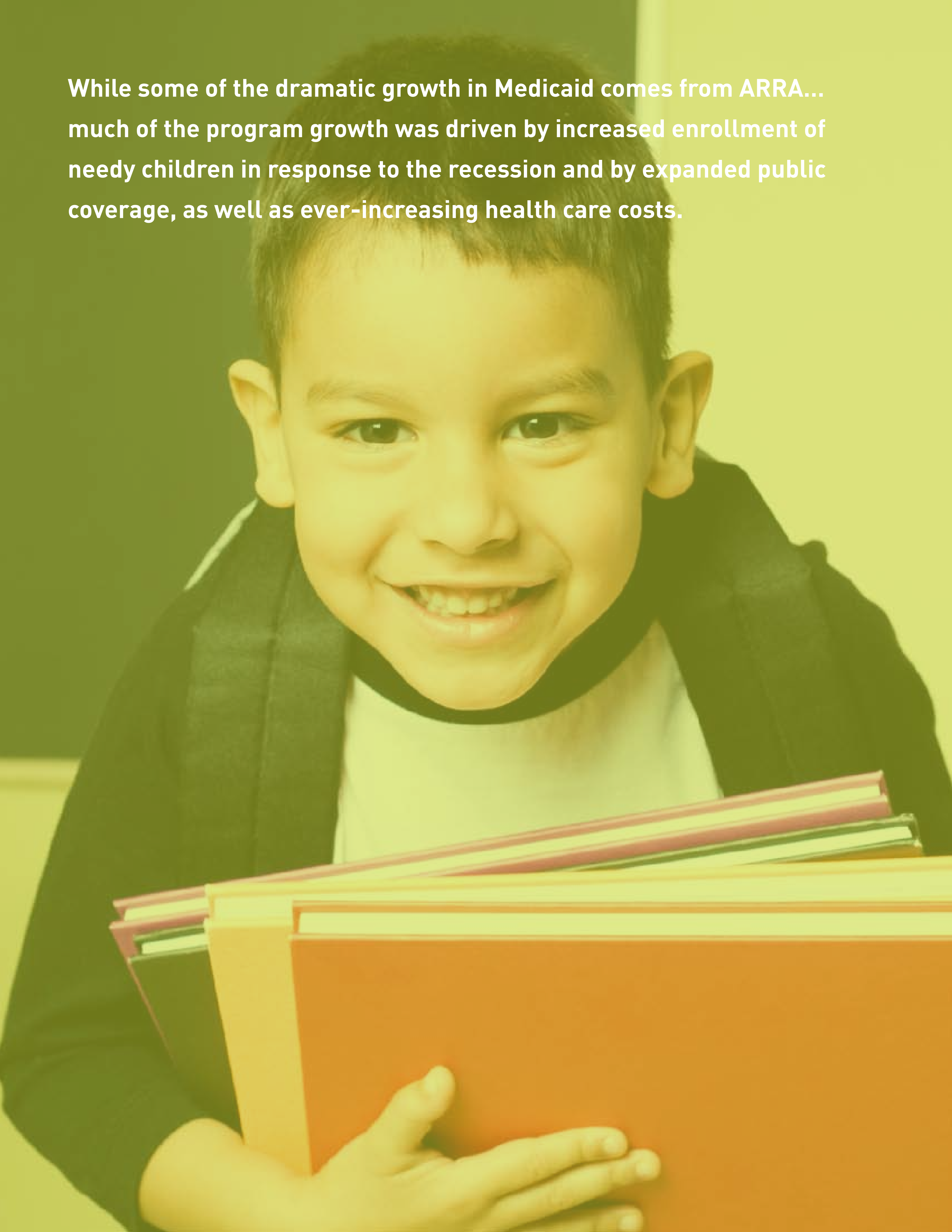
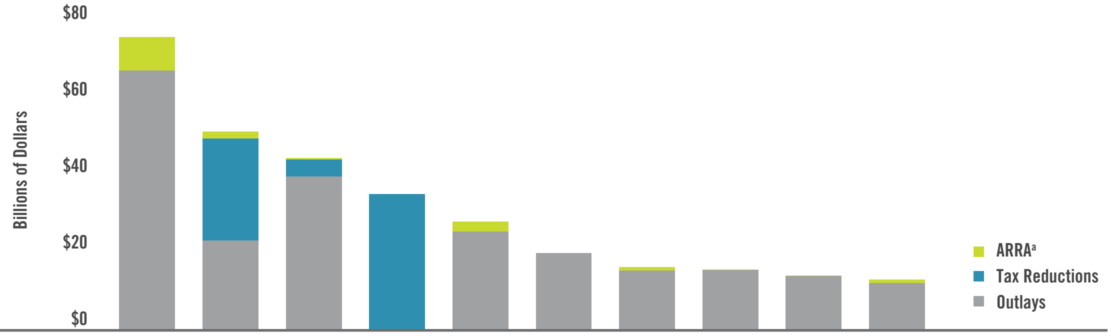


FIGURE 3 **The Ten Largest Spending and Tax Programs by Expenditures on Children in Fiscal Year 2009**



	Medicaid	Child Tax Credit	EITC	Dep. Exempt.	Food Stamps	Social Security	Title I Grants	Child Nutrition	TANF	Special Ed
ARRA[a]	8.3	1.6	0.3	-	2.5	-	0.8	0.0	0.1	0.8
Tax Reductions	-	25.6	4.3	34.3	-	-	-	-	-	-
Outlays	65.4	22.6	38.8	0.0	24.9	19.4	15.1	15.2	13.7	12.0

Source: The Urban Institute and The Brookings Institution, 2010. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2011*.
a. The ARRA impact is primarily on outlays, but there is a small impact on tax reductions, as detailed in table 3.

program with the highest expenditures on children. While some of the dramatic growth in Medicaid came from ARRA, which increased the federal share of this federal/state program, much of the program growth was driven by increased enrollment of needy children in response to the recession and by expanded public coverage, as well as ever-increasing health care costs.

After Medicaid, the largest sources of expenditures on children are three child-related tax provisions. The child tax credit and the earned income tax credit, accounting for $50 billion and $43 billion, respectively, in 2009, are split between cash payments refunded to families (outlays) and reductions in tax liabilities, with most of the EITC coming in the form of cash refunds and the child tax credit split more evenly between refunded tax credits and reductions in tax liabilities. In addition, the dependent exemption reduces the tax liability of families by $34 billion below what they would have paid if they had not had children. Together, Medicaid and the three child-related tax provisions account for half (50 percent) of expenditures on children.

The fifth and sixth largest programs, the Supplemental Nutrition Assistance Program (SNAP or food stamps) and Social Security, are not typically thought of as children's programs. But, in fact, SNAP and Social Security provide children with significant resources, $27 billion and $19 billion, respectively. Like Medicaid, SNAP is a program that had substantial expenditures before the recession and then increased substantially (by 40 percent between 2008 and 2009) as more needy families joined the program and monthly benefits were expanded under ARRA. Social Security payments to children (survivors and dependent benefits) did not increase much between 2008 and 2009 and were not affected by ARRA (the $250 supplemental benefit provided under the Recovery Act was restricted to those age 18 and older).

The last four programs on the top ten list include three programs that serve children exclusively (Education for the Disadvantaged [Title I], Child Nutrition, and Special Education) and one where children make up a majority of the recipients (Temporary Assistance for Needy Families). Each of these four programs spent more than $12 billion on children, including modest increases under ARRA.

Readers may be surprised by the absence of the new $53.6 billion State Fiscal Stabilization Fund (SFSF), a major education initiative of the Recovery Act, from the list of top ten programs for children. One reason is that new funds appropriated in 2009 tend to spend down over a course of years; only $12.4 billion or 23 percent of the $53.6 billion in SFSF was drawn down from the Treasury by the end of fiscal year 2009 (September 30, 2009); the remainder will be spent over the next few years. Further, the $12.4 billion spent in 2009 was split between children's spending (specifically, grants for elementary and secondary education) and other spending (grants for higher education, public safety and other government services). We estimate that two-thirds, or $8.3 billion, was spent on K–12 education, and thus meets our definition of spending on children. While a sizable amount, it was not enough to place the SFSF among the top ten programs.

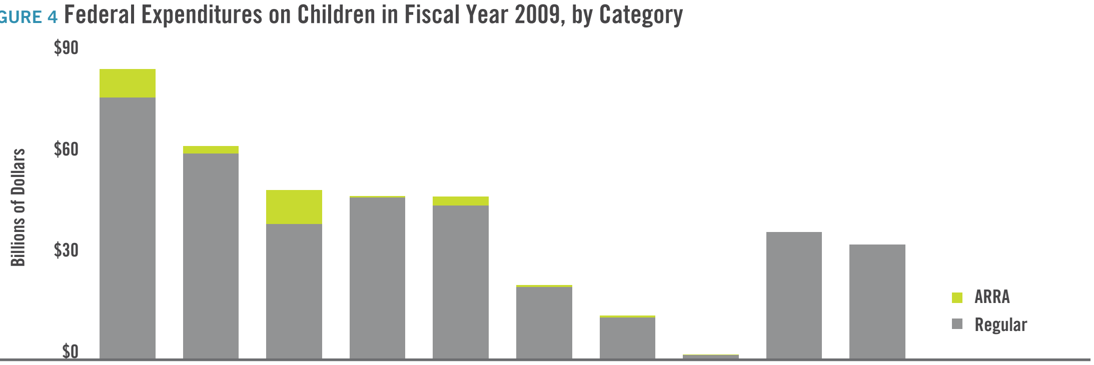
The substantial increase in education funding under ARRA is more clearly displayed in figure 4, which shows spending by broad budget category rather than by individual program. ARRA investments in education increased education outlays on children by $10 billion in 2009, more than the increases in health ($8.3 billion, driven by Medicaid) or nutrition ($2.5 billon, primarily for SNAP benefits). With the ARRA increases, education rises to the third largest category of spending on children, slightly above income security and nutrition, but still behind health and the refundable portion of the tax credits. The three smallest categories of spending are social services (which include Head Start, child care, child welfare, and other programs strongly associated with children), housing (e.g., Section 8, public housing, low-income home energy assistance), and training (including the portions of Job Corps and WIA Youth training that serve populations under 19).

Each major category shown in figure 4 encompasses spending across many different programs, as shown in table 1, which compares outlays in 2008 and 2009 for all programs that have $1 billion or more in children's expenditures in 2009. Spending on dozens of smaller programs, while not reported separately, is included in the category totals and the smaller programs are listed by name in the notes to table 1.

An examination of table 1 shows that almost all budget categories and programs experienced increases between 2008 and 2009 even after adjusting for inflation. Four categories saw very large real increases: health (36 percent), training (29 percent), nutrition (23 percent), and education (23 percent). The increases in education and training were driven by appropriations under ARRA, while the combination of ARRA and increases in the numbers of needy families joining Medicaid and SNAP (food stamps) drove the increases in health and nutrition. There were much smaller increases in income security (5 percent), housing (5 percent), the dependent exemption (3 percent), and social services (2 percent). A few programs within these categories experienced large increases, however. Most notably, the low-income home energy assistance program (LIHEAP) increased by 66 percent. The Consolidated Security, Disaster Assistance, and Continuing Appropriation Act of 2009, which was enacted before ARRA, added funding to LIHEAP to help poor families meet heating and cooling costs in times of higher energy prices.

Two tax-related categories experienced declines: the refundable portion of tax credits (13 percent decline) and tax expenditures (7 percent decline). The latter includes the nonrefundable portion of the earned income tax credit and the child tax credit, as well as reduced tax liabilities from the dependent and child care credit, the exclusion of foster care benefits, and other small tax disregards and exclusions. The 13 percent drop in the refundable portion of tax credits is driven by a 30 percent drop in the refundable portion of the child tax credit. As discussed in last year's report, child tax credit outlays were atypically high in 2008 because they included the one-time payment of $300 per child as part of the tax rebates in the Economic Stimulus Act of 2008.

FIGURE 4 **Federal Expenditures on Children in Fiscal Year 2009, by Category**



	Health	Tax credits (refundable portion)	Education	Income Security	Nutrition	Social Services	Housing	Training	Tax Expenditures	Dependent Exemption
ARRA	8.4	2.2	10.0	0.4	2.5	0.5	0.5	0.1	-0.2	-
Regular	77.7	61.2	40.4	48.2	45.8	21.8	12.8	1.7	37.9	34.3

Source: The Urban Institute and The Brookings Institution, 2010. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2011*.

TABLE 1

Changes in Children's Spending by Major Category and Major Program, 2008–09 (billions of 2009 dollars)

	FY 2008	FY 2009	$ CHANGE	% CHANGE	ARRA
1.HEALTH	**$63.2**	**$86.1**	**$22.9**	**36%**	
Medicaid	52.1	73.7	21.6	42%	Yes
SCHIP	6.4	6.9	0.5	7%	
Medicaid—vaccines for children	2.6	3.2	0.6	23%	
Immunization	0.7	1.0	0.3	38%	Yes
Other health[a]	1.4	1.3	*	-2%	
2. INCOME SECURITY	**46.4**	**48.5**	**2.1**	**5%**	
Social Security	18.7	19.4	0.7	4%	
Temporary Assistance for Needy Families	13.1	13.7	0.7	5%	Yes
Supplemental Security Income	8.5	8.9	0.4	5%	
Child support enforcement	3.7	3.9	0.1	4%	
Veterans' benefits	2.4	2.5	0.2	8%	
Railroad retirement	*	*	*	11%	
3. EDUCATION	**40.8**	**50.4**	**9.6**	**23%**	
Education for the disadvantaged (Title I, Part A)	15.1	15.9	0.8	5%	Yes
Special education	12.5	12.8	0.3	2%	Yes
State Fiscal Stabilization Fund	0.0	8.3	8.3	n.a.	Yes
School improvement	5.4	5.4	*	-1%	
Impact Aid	1.3	1.3	0.0	3%	
Dependents' schools abroad	1.1	1.1	*	1%	
Innovation and improvement	0.9	1.0	0.1	10%	Yes
Vocational (and adult) education	0.9	1.0	*	1%	
Other education[b]	3.6	3.6	*	1%	Yes
4. NUTRITION	**39.2**	**48.3**	**9.2**	**23%**	
SNAP/Food Stamps	19.6	27.4	7.9	40%	Yes
Child nutrition	14.1	15.3	1.1	8%	Yes
Special Sup. Food for Women, Infants and Children	5.5	5.7	0.2	3%	
Commodity Supplemental Food Program	*	*	*	-19%	
5. SOCIAL SERVICES	**21.9**	**22.3**	**0.4**	**2%**	
Head Start	7.0	7.0	0.0	0%	Yes
Foster care	4.6	4.5	-0.1	-3%	
Child Care and Development Block Grant	5.1	5.3	0.3	5%	Yes
Adoption assistance	2.1	2.2	0.1	7%	
Social Services (Block Grant)	1.0	1.0	*	-2%	
Other social services[c]	2.2	2.2	0.1	3%	
6. HOUSING	**12.8**	**13.3**	**0.6**	**5%**	
Section 8 Low-Income Housing Assistance	10.4	10.5	0.1	1%	Yes
Public housing	1.7	1.8	0.1	7%	
Low Income Home Energy Assistance	0.6	1.0	0.4	66%	
Other housing[d]	0.1	0.1	*	-6%	
7. TRAINING[e]	**1.4**	**1.8**	**0.4**	**29%**	**Yes**
8. REFUNDABLE PORTIONS OF TAX CREDITS	**72.5**	**63.4**	**-9.1**	**-13%**	
Child tax credit	34.5	24.3	-10.2	-30%	
Earned income tax credit	38.0	39.1	1.1	3%	Yes
9. TAX EXPENDITURES	**40.8**	**37.7**	**-3.0**	**-7%**	
Child tax credit (nonrefundable portion)	28.8	25.6	-3.2	-11%	
Earned income tax credit (nonrefundable portion)	5.0	4.1	-1.0	-19%	
Dependent care credit	3.0	4.2	1.2	41%	
Other tax credits/exemptions[f]	3.9	3.8	-0.1	-2%	
10. DEPENDENT EXEMPTION	**33.2**	**34.3**	**1.1**	**3%**	
TOTAL EXPENDITURES ON CHILDREN	**372.0**	**406.1**	**34.1**	**9%**	
OUTLAYS SUBTOTAL (1–8)	**298.1**	**334.1**	**36.0**	**12%**	
TAX EXPENDITURES SUBTOTAL (9–10)	**73.9**	**72.0**	**-1.9**	**-3%**	

Source: The Urban Institute and The Brookings Institution, 2010. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2011* and past years.
Notes * Less than $500 million.
a. Other health includes 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, and universal newborn hearing.
b. Other education includes 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 includes 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 tax credits/exemptions includes exclusion of employer-provided child care, employer-provided child care credit, 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.

Children's Expenditures under the American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 increased spending and reduced taxes, overall and in the children's budget. When first enacted in February 2009, the bill was estimated to increase the federal deficit by $787 billion. In January of this year CBO revised the estimate to $862 billion over 2009–19, including $626 billion in increased outlays and $236 billion in reduced revenues. We estimate that 23 percent of the ARRA outlays and 4 percent of the ARRA tax reductions are targeted toward children, for an overall kids' share of 18 percent, or $156 billion in ARRA expenditures, as shown in the first column of table 2.[8] The kids' share of Recovery Act outlays was more than twice as high as the kids' share in the overall budget (23 percent compared with less than 10 percent).

The kids' share of Recovery Act outlays was more than twice as high as the kids' share in the overall budget.

With such high spending on children under the Recovery Act, why did the kids' share of overall outlays fall from 9.8 percent to 9.5 percent between 2008 and 2009? One reason is the vast increases in government spending outside ARRA, including increased spending under the Troubled Asset Relief Program (TARP) and other initiatives to bolster financial and housing markets, as well as increased spending on unemployment benefits, health insurance subsidies for the unemployed, and other responses to the recession. A second reason is the timing of the ARRA expansions. While most programs received a one-time additional appropriation in 2009, outlays are projected to trickle down over several years. As shown in table 2, only $24 billion or 16 percent of the $156 billion increase in children's expenditures fell into 2009; the remaining $132 billion is expected to increase outlays or reduce taxes in 2010–19.

Several factors explain the time lag that typically occurs between when funds are appropriated and when they are disbursed from the Treasury and recorded as an outlay. Consider, for example, education, where the 2009 appropriations were increased by $62 billion under ARRA but only $10 billion, or 16 percent of this amount, was spent in 2009. In some cases, federal grants were not yet awarded (e.g., the first round of grants under the Race to the Top competition were not awarded to states until March 2010). In other cases, the funds may be awarded from the federal government to the states but not yet allocated among school districts within every state. Finally, some funds may be committed locally but not yet spent (e.g., teachers retained for school year 2009–10 receive the bulk of their actual salary after the October 1 start of the new federal fiscal year).

As shown in table 3 and discussed further in the projections section, the bulk of the ARRA increases will be spread over three years (2009, 2010, and 2011), with the highest

TABLE 2

Estimated Spending and Tax Reductions under the American Recovery and Reinvestment Act (billions of dollars)

	Total, 2009-19	2009	2010	2011-19
Outlays				
All outlays	626	112	224	289
Children's outlays	146	25	61	60
Kids' share	23%	22%	27%	21%
Tax reductions				
All tax reductions	236	88	180	-31
Children's tax reductions	9.7	-0.2	0.4	9.5
Kids' share	4%	0%	0%	-31%
Sum of outlays and tax reductions				
Total expenditures	862	200	404	258
Children's expenditures	156	24	62	70
Kids' share	18%	12%	15%	27%

Source: CBO's *Budget and Economic Outlook*, table A-1, January 2010, and estimates shown in table 3.

spending in 2010 and relatively small amounts (10 percent or less) trickling in over 2012–19. Notable exceptions with high spending in the out-years are the Qualified Zone Academy and School Construction Bonds, with tax effects that continue for years, and the benefit increase under SNAP (or food stamps), which is now projected to be higher than preexisting law benefits through 2019. A few programs have peak spending in 2009, including Section 8 housing assistance and the Impact Aid education program.

Education received the largest infusion of children's spending under ARRA, $62 billion or two-fifths of all ARRA spending on children. (Note this does not include $4.1 billion appropriated for early education; both Head Start and child care assistance are classified as social services rather than education under this analysis, which follows OMB's budget function classifications.) The education expansion was large not only in absolute terms, but also in relation to the base levels of federal education funding on children

TABLE 3

Estimated Expenditures on Children under the American Recovery and Reinvestment Act
(Total and Percentage Allocations Across Years)

	Total to children (in millions)		2009	2010	2011	NEXT 8 YEARS
Health	**24,511**		**34%**	**45%**	**20%**	**0%**
Medicaid	24,211	*	34%	45%	20%	0%
Immunization	300		15%	61%	21%	3%
Income Security	**3,300**		**11%**	**60%**	**18%**	**11%**
Temporary Assistance for Needy Families	2,748	*	3%	62%	21%	14%
Child support enforcement	552		50%	50%	0%	0%
Education	**62,264**		**16%**	**47%**	**29%**	**8%**
State Fiscal Stabilization Fund	35,849	*	23%	54%	19%	4%
Education for the disadvantaged (Title I)	13,000		6%	35%	45%	13%
Special education	12,200		6%	39%	42%	13%
School Improvement	720		1%	59%	30%	10%
Teacher quality grants	200		0%	50%	35%	15%
Statewide educational data systems	195	*	0%	32%	33%	35%
Impact Aid	100		40%	20%	26%	14%
Nutrition	**27,184**		**9%**	**20%**	**19%**	**52%**
SNAP/Food Stamps	26,968	*	9%	20%	19%	53%
Child nutrition	100		44%	56%	0%	0%
Special Supplemental Food (WIC)*	116	*	29%	34%	38%	0%
Social Services	**5,352**		**10%**	**35%**	**28%**	**27%**
Head Start (including Early Head Start)	2,100		1%	23%	30%	46%
Child Care and Development Block Grant	2,000		11%	39%	31%	20%
Foster care and adoption assistance	970		27%	54%	19%	0%
Community Services Block Grant (CSBG)	282	*	8%	28%	32%	32%
Housing	**837**		**61%**	**29%**	**10%**	**0%**
Section 8 Low-Income Housing Assistance	837	*	61%	29%	10%	0%
Training	**1,024**		**13%**	**49%**	**29%**	**8%**
WIA Youth Formula Grants	863	*	15%	50%	29%	6%
Job Corps	142	*	6%	44%	30%	20%
YouthBuild Grants	19	*	15%	50%	29%	6%
Tax Credits/Exemptions	**31,449**		**6%**	**35%**	**28%**	**31%**
Earned income tax credit[a]	5,659	*	6%	53%	41%	0%
Child tax credit[b]	16,375		10%	50%	40%	0%
Qualified Zone Academy Bonds	1,045		0%	1%	3%	96%
Qualified School Construction Bonds	8,370		0%	1%	3%	95%
Total ARRA Expenditures on Children (as percent of total ARRA expenditures)	**155,921 (18%)**		16%	40%	26%	20%
Outlays subtotal (as percent of total ARRA outlays)	**146,259 (23%)**		17%	42%	27%	14%
Revenue effects subtotal (as percent of total ARRA revenue effects)	**9,661 (4%)**		-2%	4%	6%	92%

Source: The Urban Institute and The Brookings Institution, 2010. Authors' estimates based on tabulations provided by the Congressional Budget Office.

Notes: Estimates are in nominal dollars. For programs marked with an "*," spending on children is only a portion of total spending. Specifically, we assumed that children received 26 percent of the ARRA increases on Medicaid, 76 percent of TANF, 67 percent of the State Fiscal Stabilization Fund in 2009 and 72 percent in 2010–19, 78 percent of state educational data systems, 49 percent of SNAP/food stamps, 87 percent of WIC, 28 percent of CSBG, 42 percent of Section 8 Low-Income Housing assistance, 53 percent of WIA Youth Formula Grants, 57 percent of Job Corps, 38 percent of Youth Build Grants, and 92 percent of the earned income tax credit. See the data appendix for more on these estimates.

a. The EITC outlay or refundable piece is $5.383 million, spread 10 percent in 2009, 50 percent in 2010, and 40 percent in 2011–19.

b. The child tax credit outlay or refundable piece is $16,405 million, also spread 10 percent, 50 percent, and 40 percent.

($40 billion in 2008 and $50 billion in 2009). Therefore, the upcoming "cliff" or funding drop that will occur as ARRA federal funds are spent down may be particularly noticeable in education. However, the increase in federal education funds often did not represent an increase in education services to children as much as an infusion of federal funds to offset losses in state funding, as state revenues contracted during the recession (e.g., the new State Fiscal Stabilization Fund). It is therefore difficult to know whether children's education services increased in 2009 without taking into account state and local expenditures on education, both now and in the future. The impact of the upcoming drop in federal education funding as ARRA ends will depend to some extent on future state and local spending, and the timing and extent of a recovery in state fiscal health.

Public spending on the elderly was roughly $24,300 per person, or 2.3 times the amount spent per child.

Federal and State/Local Spending on Children in 2007

In last year's report, we reported that federal spending provided just under one-third of total public investments in children in 2004, based our analyses of federal expenditures combined with a detailed 50-state analysis of state and local spending provided by researchers at the Rockefeller Institute. In this year's report, we are able to update the state and local expenditures through 2007, as well as examine patterns throughout 1998–2007. (We have only limited information for 2009, so we are not yet able to determine total public-sector expenditures on children during the recession.)

The state and local share of total public investments appears to have decreased slightly in the past decade, declining from 71 percent in 1998–2001 to 67 percent in 2005, then rising back to 69 percent in 2007. Both federal and state expenditures were increasing during this period, resulting in an increase in total public investments in children. (The rise in federal expenditures is detailed in the next section; see figure 10 and table 4.)

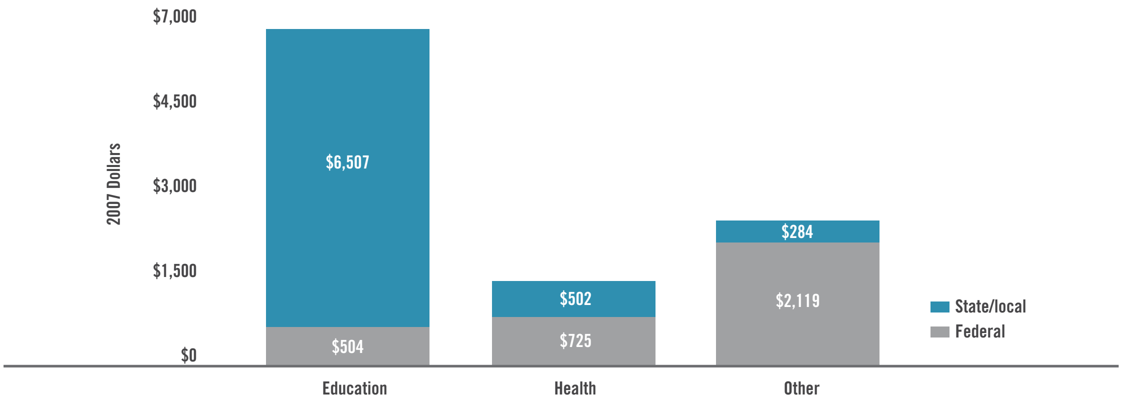
Federal investments continued increasing between 2007 and 2009, but we do not yet have complete comparable data for state and local spending. Estimates for two major components of state and local spending—state spending on education and Medicaid—show a decline in state investments in children between 2008 and 2009, enough to partially, but not fully, offset the federal increases.[9] However, we do not have data for local spending on schools—a very large component of total state and local spending—and so we do not know for certain whether total (federal/state/local) spending on children increased or decreased in 2009. In future reports, we plan to use updated state and local expenditure data to answer this important question.

Public investments in children totaled $831 billion in 2007, including $262 billion in federal outlays and $570 billion in state and local spending. These estimates focus on outlays, not reductions in taxes, because the effect of child-related tax provisions in state and local law are generally not included in the Rockefeller Institute estimates of state and local law.[10]

The lion's share of the state and local spending on children is for public schools, as shown in figure 5. State and local spending on education averaged $6,507 per child in 2007 (spread across all children under 19, including those not in school). An additional $504 dollars per capita was spent by the federal government, bringing total investments to $7,012 or almost two-thirds (66 percent) of the total public investment of $10,642 per child in 2007. Expenditures on health totaled $1,227 per child, or 12 percent of total public investments, with 59 percent of health spending provided by the federal government and with state and local governments making up the remaining 41 percent. Finally, non-education and non-health spending total $2,043 or 23 percent of all public investments. The federal government provides 88 percent of the dollars in this category, which includes income security, the refundable portions of the earned income and child-care tax credits, social services, housing, training, and nutrition.

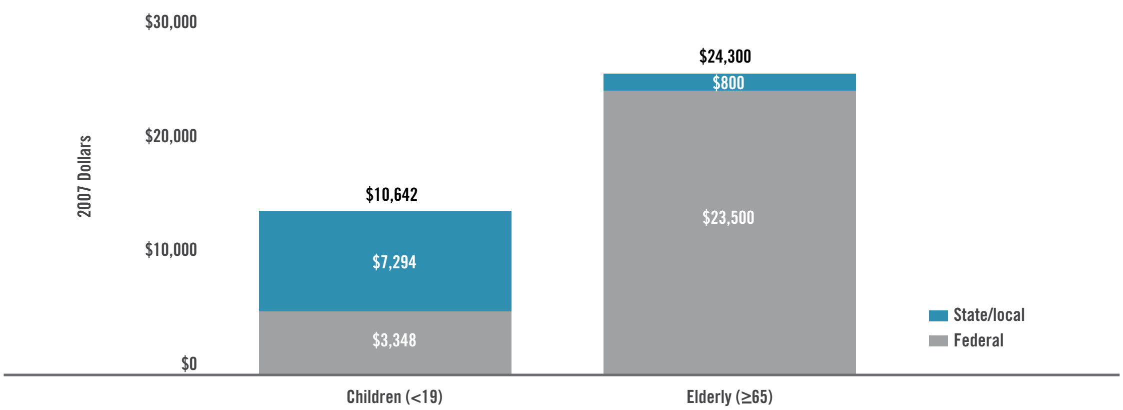
Across all categories, public investments totaled $10,642 per child in 2007, including $3,348 in federal spending and $7,294 in state and local investments. Both the federal and

FIGURE 5 Per Child Federal, State, and Local Expenditures on Children in 2007, by Category



Source: The Urban Institute and The Brookings Institution, 2010.
Note: Tax expenditures are not included in either the federal or state/local numbers.

FIGURE 6 Per Capita Spending on Children and the Elderly in 2007



Source: The Urban Institute and The Brookings Institution, 2010.

state figures are for 2007 and are presented in 2007 dollars. The figures represent per capita averages across all states, all ages of children, all income categories, all levels of disability, and so on. In fact, per capita spending varies considerably across many dimensions. For example, state and local spending on children varied in 2004 from $3,699 in Utah to $9,267 in New Jersey, and federal expenditures on children also varied to some extent (Billen et al. 2007). In other research we have found that spending also varies by age, with total spending twice as high on elementary school–age children as on infants and toddlers.[11] Per capita spending also varies by a child's need and eligibility for services, which may vary by family income, disability status, or other condition.

For comparison, public spending on the elderly was roughly $24,300 per person, or 2.3 times the amount spent per child in 2007.[12] A large portion of public expenditures on the elderly are for health care, reflecting the higher health needs of the elderly compared with children. However, per capita spending on the elderly is considerably higher than per capita spending on children even without the roughly $9,900 per person in public health dollars spent on those age 65 and older.

As shown in figure 6, the vast majority of public spending on the elderly is federally funded, primarily through Social Security and Medicare. Looking solely at the federal budget, an elderly person receives seven federal dollars for every dollar received by a child. The size of the elderly population is about half that of the child population (37.9 million versus 78.1 million in 2007). In aggregate, federal outlays on the elderly were 3.4 times those on children in 2007.

trends in federal expenditures, 1960–2009

Federal spending rose dramatically in 2009, whether measured in inflation-adjusted dollars ($3.5 trillion, as shown in figure 7) or as a share of the economy (24.7 percent, as shown in figure 8, which shows the same data expressed as a percentage of GDP). Federal outlays were higher as a percentage of GDP than any other year in the 1960–2009 period shown in the figures (and, in fact, higher than any year since the end of World War II). Much of the increase in spending was a result of the economic recession and government efforts to stimulate the economy, support the unemployed, assist beleaguered state and local governments, and bolster the troubled financial, housing, and automotive sectors. While federal spending on children increased as a result of the recession and the American Recovery and Reinvestment Act, reaching a record 2.3 percent of GDP, other parts of the federal government increased even more rapidly. As a result, children received less than one-tenth (9.5 percent) of total outlays, or $334 billion out of $3.5 trillion.

How was the remaining 90 percent of the federal budget spent? Over a third (36 percent, or $1.26 trillion) was allocated to the elderly and disabled for the non-child portions of Social Security, Medicare, and Medicaid (see figure 7). Other major items of spending in the federal budget include defense (19 percent, or $657 billion in 2009) and interest on the debt (5 percent, or $187 billion). In addition, because of response to the recession and troubled financial markets, a residual category encompassing all other spending was unusually large in 2009, $1.08 trillion or 31 percent of total outlays. This category includes all other government functions (e.g., the environment, transportation, commerce, etc.) and encompasses spending under TARP; the non-child, non-elderly portions of ARRA; and extensions of unemployment benefits, which, while indirectly benefitting children, are not counted as direct spending on children in our analysis.[13]

Reductions in taxes are not included in the numbers above or in the discussion of broad trends in the federal budget below, because federal budget totals do not include tax expenditures. As already discussed, tax expenditures on children represented 8 percent of the total tax expenditure budget in 2009.

Broad Trends in the Federal Budget, 1960–2009

Over the past half-century, the share of the economy spent on domestic priorities, including both children and the elderly, has increased, as shown in figure 8. Outlays on children have grown from a low base of 0.6 of GDP in 1960, more than doubling to 1.4 percent of GDP by 1980, following the introduction of food stamps, Medicaid, Education for the Disadvantaged/Title I, and other major federal programs. Since then, children's spending has increased more gradually, reaching 2.0 percent of GDP in 2005 and rising to a record 2.3 percent of GDP in 2009 as a result of the recession and increased investments under ARRA. Over this same period, non-child Social Security, Medicare, and Medicaid spending has increased from 2.0 percent of GDP in 1960 to 8.9 percent in 2009 (these spending estimates exclude Medicaid spending on children and Social Security payments to children of retired and disabled workers to avoid double-counting).

Defense spending has fallen dramatically as a percentage of GDP, from over 9 percent in 1960 to only 3 percent in 2000. Despite a sizable increase over the past eight years because of wars in Iraq and Afghanistan, defense spending was at 4.6 percent of GDP in 2009, about half the levels experienced during the 1960s.

Federal spending has fluctuated over the 49-year period depicted in figure 8, ranging from about 17 percent of GDP (in 1965) to 23 percent of GDP (in 1985), with a new high for the period of 25 percent in 2009. In broad terms, the long-term decline in defense spending has allowed an increase in spending on both elderly and children's programs

without substantial expansion in total federal outlays relative to the size of the economy. Such a trend cannot continue much longer; even if defense spending were slashed in half somehow, the resulting outlay savings would be only a little over 2 percent of GDP, which is not enough to finance the projected increase in spending on the elderly and disabled under Medicare, Medicaid, and Social Security over the next decade, let alone increases in any other areas. The nation also cannot continue to spend 25 percent of its GDP on the federal government, while raising only 15 percent in revenues, as it did in 2009; such a pattern, while widely believed by economists to be beneficial in an economic crisis, would cripple our economy with staggering debt if continued indefinitely. In other words, the rate of increase in spending on both children and elderly, while providing substantial benefits over the past half-century, will be difficult to sustain without a substantial increase in revenues.

Kids' Share of the Domestic Budget

To get a sense of how children's programs have competed for resources against other domestic priorities in the past, we analyze total children's expenditures (including tax expenditures as well as outlays) as a share of domestic spending. For this special kids' share analysis, we exclude spending on defense and international affairs, and we include spending on children's tax expenditures, as in past reports. Under this comprehensive measure that includes tax expenditures as well as outlays, the children's share of domestic federal spending has actually shrunk over time, from 20 percent in 1960 to 14 percent in 2009 (figure 9). In other words, the children's share of the budget has shrunk by 29 percent. This result is driven mainly by a steep decline in the value of the dependent exemption, which is discussed further in the next section.

Under a comprehensive measure that includes tax expenditures as well as outlays, the children's share of domestic federal spending has actually shrunk over time, from 20 percent in 1960 to 14 percent in 2009.

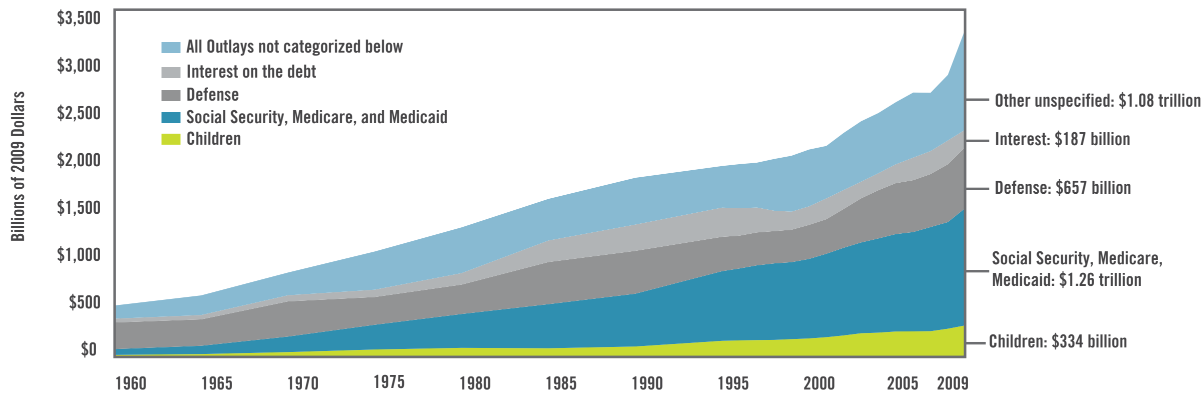
In contrast, spending on the non-child portions of Social Security, Medicare, and Medicaid has doubled, rising from 22 to 44 percent of domestic spending.[14]

Trends in Children's Expenditures, 1960–2009

We move now from broad trends in federal outlays to a closer look at children's expenditures over the past nearly half-century, including both outlays and tax reductions on children. During the 1960s and early 1970s, federal programs serving children and families expanded considerably. Spending on federal programs rose as new programs were introduced, including the Food Stamp Program (1964), Medicaid (1965), Education for the Disadvantaged/Title I (1965), Head Start (1966), Supplemental Security Income (1972), and public housing (1974). Between 1975 and 2008, however, spending on these and dozens of other programs benefitting children rose only moderately as a percentage of GDP, and that aggregate growth was solely because of growth in Medicaid spending. In 2009, with the enactment of the American Recovery and Reinvestment Act, as well as the impact of the recession, spending on federal programs increased sharply (figure 10).

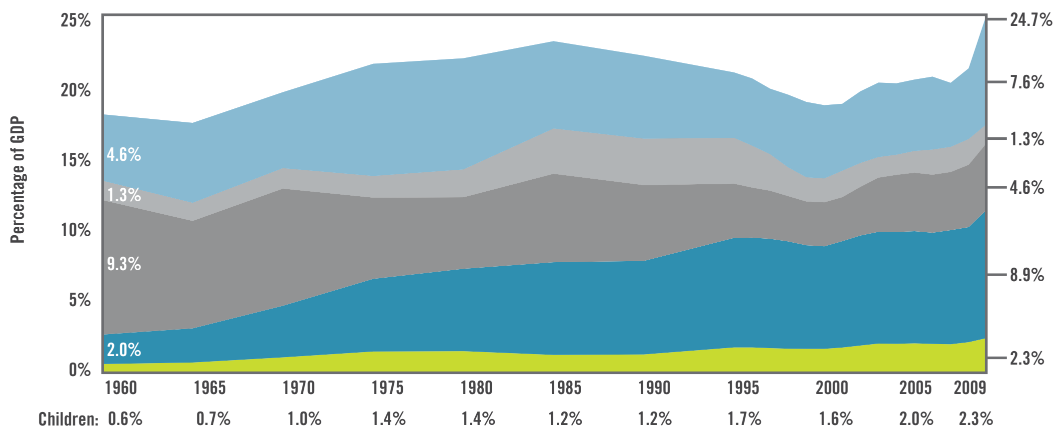
Expenditures associated with tax provisions have increased dramatically since 1985, with the expansion of the earned income tax

FIGURE 7 Trends in Outlays on Children and Other Major Items in the Federal Budget, 1960–2009



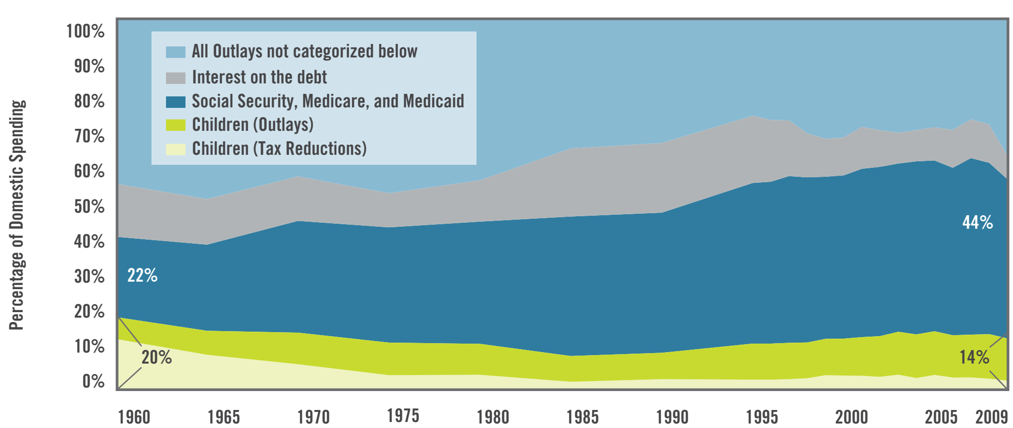
Source: The Urban Institute and The Brookings Institution, 2010. Authors' estimates based on data from the *Budget of the U.S. Government Fiscal Year 2011* and previous years.
Note: Social Security, Medicare, and Medicaid excludes spending already captured as children's spending.

FIGURE 8 Trends in Outlays on Children and Other Major Items in the Federal Budget, Measured as Percentage of the Economy (GDP), 1960–2009



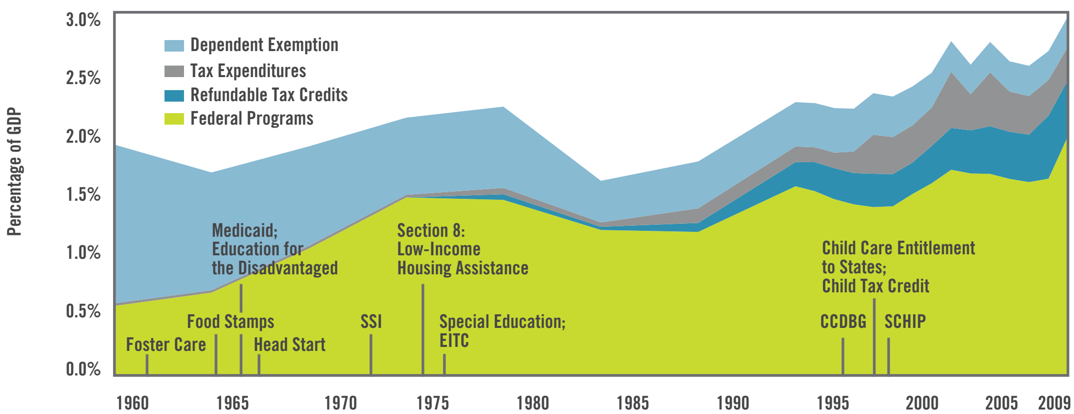
Source: The Urban Institute and The Brookings Institution, 2010. Authors' estimates based on data from the *Budget of the U.S. Government Fiscal Year 2011* and previous years.
Note: Social Security, Medicare, and Medicaid excludes spending already captured as children's spending.

FIGURE 9 Trends in Expenditures on Children as a Share of Domestic Federal Spending



Source: The Urban Institute and The Brookings Institution, 2010. Authors' estimates based on data from the *Budget of the U.S. Government Fiscal Year 2011* and previous years.
Notes: Social Security, Medicare, and Medicaid excludes spending already captured as children's spending. For this exercise, domestic spending includes tax expenditures on children as well as outlays on all budget items other than defense and international affairs.

FIGURE 10 Historical Spending Trends on Children and the Introduction of Major Children's Programs and Tax Provisions, 1960–2009



Source: The Urban Institute and The Brookings Institution, 2010. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2011* and past years.

credit in 1986, 1990, and 1993, along with the creation of the child tax credit in 1997. These expansions have 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 (figure 10). In fact, the combined value of all tax provisions affecting children (refundable tax credits, tax expenditures, and the dependent exemption) is lower in 2009 than it was in 1960 (1.0 percent of GDP 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 dependent on 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.[15]

Over the past half-century, spending on children has gradually shifted from providing cash payments, which are paid to parents or other relatives on behalf of children, to providing in-kind benefits (such as housing and nutrition benefits) and services provided directly to children (e.g., education and health services). The expansions in education, Medicaid, and Supplemental Nutrition Assistance in 2009 accelerated this trend further. Some of the decline in cash payments to parents has been offset by an increase in refundable tax credits—principally the EITC, which also provide cash payments, though annually rather than monthly (figure 11).

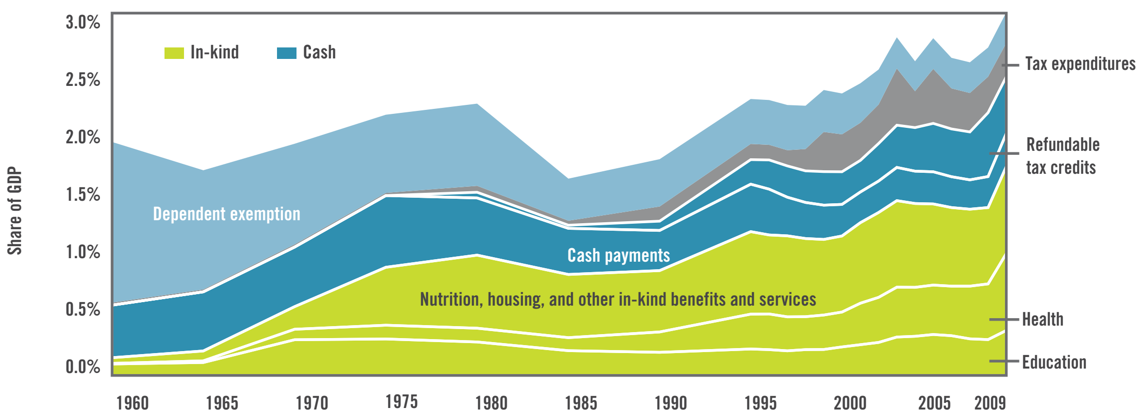
Another long-term trend is a shift toward spending on programs that are means tested—that is, targeted to low-income families. Back in 1960, the majority of children's expenditures were on benefits available to families across the income spectrum; for example, Social Security and the dependent exemption. The focus of children's spending changed during the 1960s and early 1970s, when new federal programs such as Medicaid were introduced to serve low-income children. By 1985, a majority (61 percent) of total federal expenditures were on means-tested programs—that is, programs available to families below a certain level of financial means (figure 12). The share of expenditures on means-tested programs continued growing in the early 1990s, reaching a peak of 71 percent in 1995 and 1996 following the expansion of the EITC and SSI payments to disabled children. The trend reversed in the next dozen years, with the share of means-tested programs and tax dropping back to 63 percent in 2008 (due partly to the expansion of the child credit, which—because it is phased out at fairly high income levels—is not counted among means-tested programs here).[16] Largely as a result of the recession and the expanding use of public health care coverage for a wide range of children in lower-income working families, means-tested spending grew again in 2009, accounting for 66 percent of all expenditures on children.

Note that the definition of "means-tested" is somewhat imprecise, with different programs using different income limits and with some increase in income limits relative to the official poverty level over the past decades. Also, recall that the vast majority of state and local spending is on public schools, which provide universal public education. So while the majority (two-thirds) of federal expenditures on children are provided through means-tested programs, the majority of state and local expenditures are on universal programs.

Another way to examine spending trends is to distinguish between mandatory and discretionary spending. Mandatory spending refers to spending on entitlement programs and other programs where the funding level is set directly in the authorizing statute and is not subject to action by appropriations committees. Mandatory spending programs often have automatic growth built into them, such as indexing of benefits to wages, automatic inclusion of newly available health goods and services, or expansion of caseloads in time of recession. In contrast, discretionary programs are subject to annual appropriations and typically do not have any automatic spending increases.

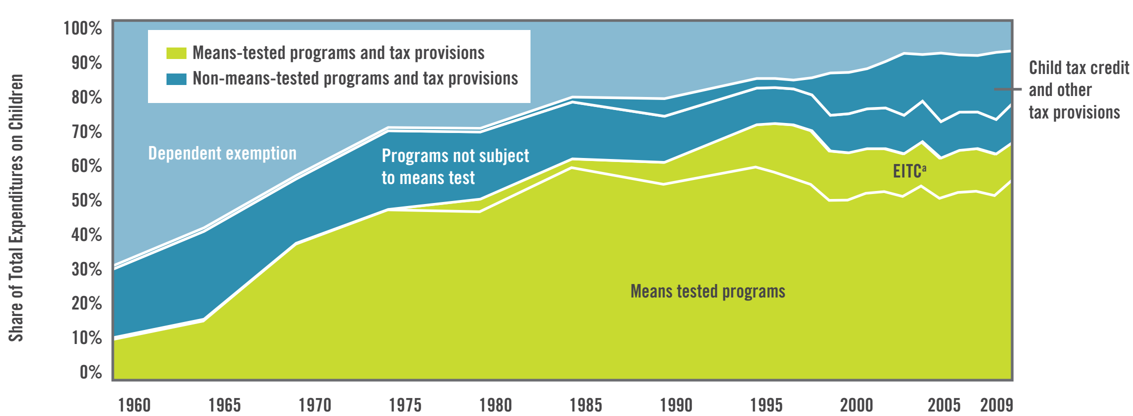
Mandatory programs have grown considerably since 1960 (figure 13). Much of this growth is in Medicaid, SCHIP, and nutrition programs, as well as the refundable portions of the EITC and child tax credit. This growth was accelerated in 2009

FIGURE 11 In-Kind, Cash Payments, Refundable Taxes, and Tax Expenditures, 1960–2009



Source: The Urban Institute and The Brookings Institution, 2010. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2011* and past years.
Notes: Other includes nutrition, housing, social services, and training programs. The dependent exemption and tax expenditures are not classified as cash or in-kind benefits.
Detailed information for how each program is classified (cash versus in-kind versus taxes) is provided in the data appendix.

FIGURE 12 Means-Tested Spending, 1960–2009



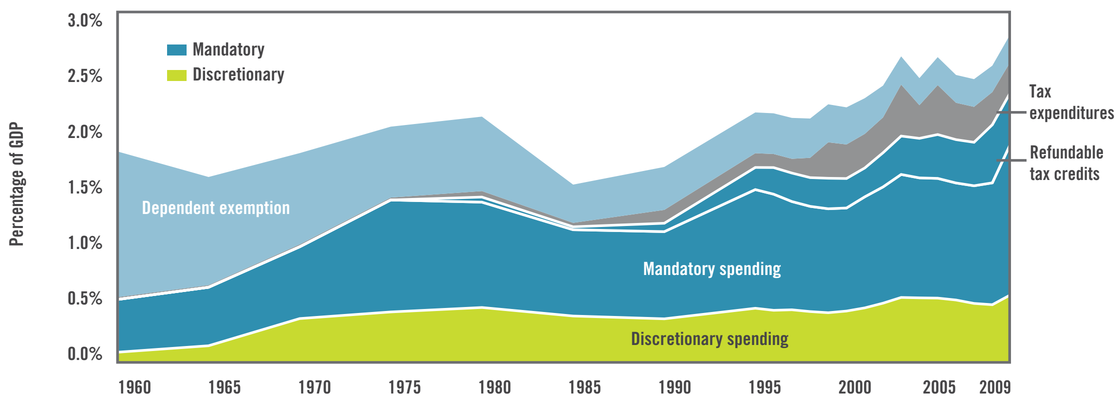
Source: The Urban Institute and The Brookings Institution, 2010. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2011*.
a. EITC includes the full EITC (refundable and nonrefundable portion, as well as exclusion of public assistance benefits from taxable income). Detailed information for how each program is classified (means-tested versus not subject to means test) is provided in the data appendix.

as two large mandatory programs—Medicaid and Supplemental Nutrition Assistance—grew from the combined effect of legislative increases (under ARRA) and automatic increases (more low-income families turning to these programs for assistance because of the recession).

Discretionary programs grew between 1960 and 1980 with the enactment of major education and housing programs. Since 1980, growth in discretionary programs has lessened, although spending did increase slightly from 0.5 percent of GDP in 1980 to 0.6 percent in 2003. Over the next five years, discretionary spending declined relative to the economy, falling back to 0.5 percent of GDP in 2008, before rising back to 0.6 percent in 2009 as a result of increased ARRA appropriations for education and other services. Somewhat unusually, ARRA expanded both mandatory and discretionary spending in one bill.

Finally, a detailed analysis of trends in children's expenditures from 1960 to 2009, by category and major program, is provided in table 4. It shows, for example, that health spending has grown from 0 to 21 percent of total expenditures on children, while refundable tax credits have grown from 0 to 16 percent. On the other hand, the dependent exemption has fallen from 69 to 8 percent and income security has fallen from 22 to 12 percent of expenditures on children.

FIGURE 13 **Mandatory and Discretionary Spending, 1960–2009**



Source: The Urban Institute and The Brookings Institution, 2010. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2011*.
Note: Detailed information for how each program is classified (discretionary, mandatory, tax provisions) is provided in the data appendix.

TABLE 4

Federal Expenditures on Children in Selected Years

(billions of 2009 dollars and as percentage of total)

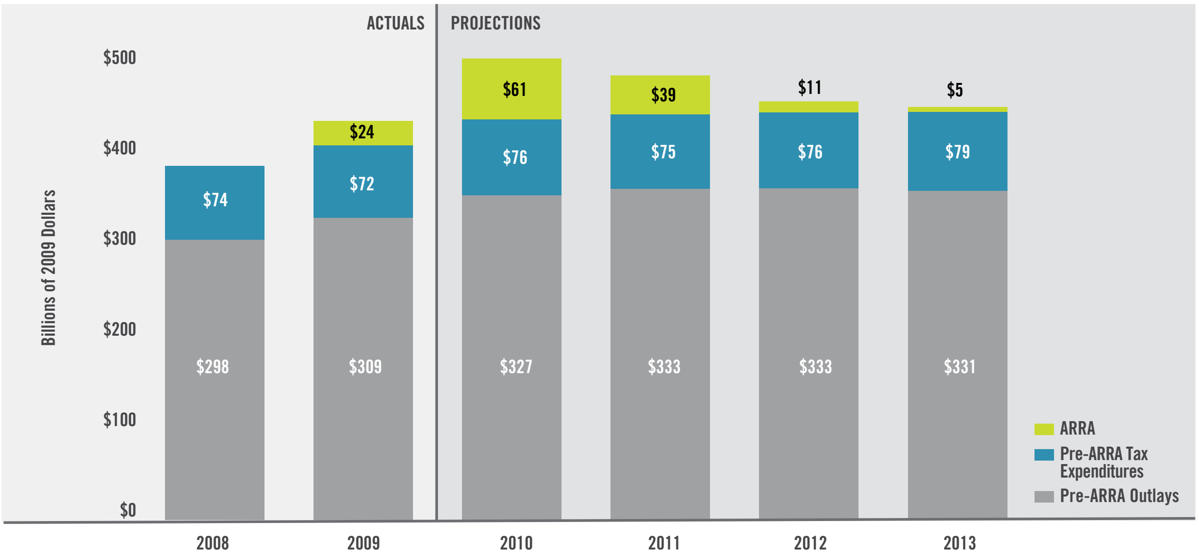
	1960		1970		1980		1990		2000		2009	
	$	%	$	%	$	%	$	%	$	%	$	%
1. HEALTH	**0.0**	**0%**	**0.8**	**5%**	**2.9**	**5%**	**9.2**	**9%**	**26.6**	**12%**	**86.1**	**21%**
Medicaid	--		0.6		2.6		8.7		23.7		73.7	
SCHIP	--		--		--		--		1.2		6.9	
Medicaid—vaccines for children	--		--		--		--		0.5		3.2	
Immunization	0.0		0.0		0.0		0.2		0.4		1.0	
Other health	0.0		0.2		0.3		0.4		0.8		1.3	
2. INCOME SECURITY	**2.1**	**22%**	**4.7**	**26%**	**12.6**	**22%**	**19.2**	**20%**	**33.4**	**16%**	**48.5**	**12%**
Social Security	1.1		2.5		6.8		8.6		13.4		19.4	
Temporary Assistance for Needy Families	0.7		1.6		4.1		7.4		10.8		13.7	
Supplemental Security Income	--		--		0.4		1.1		4.8		8.9	
Child support enforcement	--		--		0.3		1.1		3.0		3.9	
Veterans' benefits	0.3		0.6		0.9		0.8		1.4		2.5	
Railroad retirement	0.0		0.0		0.1		0.0		0.0		0.0	
3. EDUCATION	**0.5**	**5%**	**2.8**	**15%**	**7.2**	**12%**	**10.4**	**11%**	**21.8**	**10%**	**50.4**	**12%**
Education for the disadvantaged (Title I, Part A)	--		1.3		3.2		4.5		8.5		15.9	
Special education	--		0.1		0.8		1.6		4.9		12.8	
State Fiscal Stabilization Fund	--		--		--		--		--		8.3	
School improvement	--		0.3		0.8		1.2		2.5		5.4	
Impact Aid	0.3		0.7		0.7		0.8		0.9		1.3	
Dependents' schools abroad	0.0		0.1		0.3		0.9		0.9		1.1	
Innovation and improvement	--		--		--		--		--		1.0	
Vocational (and adult) education	0.0		0.2		0.5		0.7		0.7		1.0	
Other education	--		0.1		0.5		0.8		2.1		3.6	
4. NUTRITION	**0.2**	**2%**	**0.7**	**4%**	**8.7**	**15%**	**14.3**	**15%**	**22.4**	**10%**	**48.3**	**12%**
SNAP/Food Stamps	--		0.3		4.5		7.4		9.7		27.4	
Child nutrition	0.2		0.4		3.5		5.0		9.2		15.3	
Special Supplemental Food for Women, Infants and Children	--		--		0.6		1.8		3.4		5.7	
Commodity Supplemental Food Program	--		--		0.0		0.0		0.0		0.0	
5. SOCIAL SERVICES	**0.0**	**0%**	**0.6**	**3%**	**2.6**	**4%**	**4.8**	**5%**	**15.5**	**7%**	**22.3**	**5%**
Head Start	--		0.3		0.8		1.3		4.5		7.0	
Foster care	--		--		0.3		1.4		4.4		4.5	
Child Care and Development Block Grant	--		--		--		--		3.3		5.3	
Adoption assistance	--		--		--		0.1		0.1		2.2	
Social Services (Block Grant)	--		0.3		1.3		1.4		0.9		1.0	
Other social services	--		0.0		0.2		0.6		2.3		2.2	
6. HOUSING	**0.0**	**0%**	**0.0**	**0%**	**1.6**	**3%**	**6.0**	**6%**	**8.8**	**4%**	**13.3**	**3%**
Section 8 Low-Income Housing Assistance	--		--		0.9		4.7		7.0		10.5	
Public housing	--		--		0.3		0.7		1.2		1.8	
Low Income Home Energy Assistance	--		--		--		0.4		0.4		1.0	
7. TRAINING	**0.0**	**0%**	**0.5**	**3%**	**2.5**	**4%**	**1.4**	**1%**	**1.9**	**1%**	**1.8**	**0%**
8. REFUNDABLE PORTIONS OF TAX CREDITS	**0.0**	**0%**	**0.0**	**0%**	**1.2**	**2%**	**4.1**	**4%**	**24.9**	**12%**	**63.4**	**16%**
Child tax credit	--		--		--		--		0.8		24.3	
Earned income tax credit	--		--		1.2		4.1		24.1		39.1	
9. TAX EXPENDITURES	**0.1**	**1%**	**0.2**	**1%**	**1.4**	**2%**	**6.7**	**7%**	**28.6**	**13%**	**37.7**	**9%**
Child tax credit (nonrefundable portion)	--		--		--		--		19.3		25.6	
Earned income tax credit (nonrefundable portion)	--		--		0.7		1.7		4.3		4.1	
Dependent care credit	--		--		--		3.8		2.3		4.2	
Other tax credits/exemptions	0.1		0.2		0.7		1.2		2.6		3.8	
10. DEPENDENT EXEMPTION	**6.5**	**69%**	**8.0**	**43%**	**17.6**	**30%**	**21.3**	**22%**	**31.2**	**15%**	**34.3**	**8%**
TOTAL EXPENDITURES ON CHILDREN	**9.5**	**100%**	**18.4**	**100%**	**58.2**	**100%**	**97.5**	**100%**	**215.2**	**100%**	**406.1**	**100%**
OUTLAYS SUBTOTAL (1-8)	**2.9**	**30%**	**10.2**	**55%**	**39.2**	**67%**	**69.5**	**71%**	**155.4**	**72%**	**334.1**	**82%**
TAX EXPENDITURES SUBTOTAL (9-10)	**6.6**	**70%**	**8.2**	**45%**	**19.0**	**33%**	**28.0**	**29%**	**59.8**	**28%**	**72.0**	**18%**

Source: The Urban Institute and The Brookings Institution, 2010. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2011* and past years.
Note: See table 1 for list of programs included in other health, other education, and so on.

future trends in children's expenditures, 2010–20

In the near term, federal children's expenditures will continue to expand as a result of the lingering effects of the recession and the American Recovery and Reinvestment Act. Some of this increased federal spending may be offset by continuing cuts in state and local spending on children, primarily education, depending on how long it takes state budgets to emerge from the grip of the recession and what spending choices they make as they emerge. Over the longer term, ten-year projections show an overall decline in federal children's expenditures, both as a share of the economy and as a share of the federal budget. As discussed in the methods section, these projections assume a continuation of current policy, do not incorporate the effects of health care reform, and rely heavily on projections of the Congressional Budget Office and the Urban-Brookings Tax Policy Center Microsimulation Model. If current law continues unchanged, the federal budget will grow as a whole, but a smaller share of the budget will be targeted to children. More dramatically, the children's share of more than $1 trillion in additional federal spending expected within a decade will be much, much smaller than their own modest share of current budgets.

FIGURE 14 **Actual and Projected Expenditures on Children, 2008–13**



Source: The Urban Institute and The Brookings Institution, 2010. Authors' estimates based on data from the *Budget of the U.S. Government Fiscal Year 2011* and previous years and CBO and Urban-Brookings Tax Policy Center Microsimulation Model projections.
Note: The ARRA spending shown above do not total to the $156 billion cost estimate presented in table 3 because this figure uses inflation-adjusted dollars and does not show spending in 2014–19.

Projected Spending on Children and Other Major Items in the Federal Budget

The impact of the American Recovery and Reinvestment Act on children's expenditures, already seen in the 2009 outlays, will continue over the next few years (figure 14). ARRA expenditures will peak in 2010 and remain significant in 2011. Except nutrition assistance and two school bond provisions, however, most programs will have less than 10 percent of their ARRA funds remaining for 2012 and later years. Recall that this analysis tracks outlays, which occur some months or years after grants are awarded. Most programs will exhaust their funds available for new obligations even more rapidly than the outlay stream shown above.

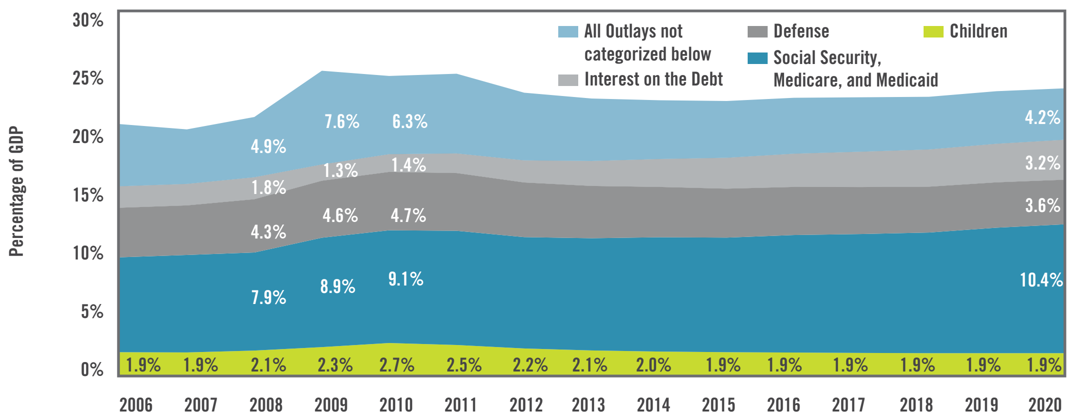
As a result of ARRA and the continued high caseloads for Medicaid and nutrition assistance (food stamps), outlays on children will rise temporarily to a record high of 2.7 percent of GDP in 2010, with the lingering effects of ARRA and the recession keeping spending as high as 2.5 percent of GDP in 2011. Total governmental spending will also remain high—24 percent of GDP—throughout 2009 to 2011, before gradually declining (figure 15). As already noted, these projections do not incorporate the impact of health reform or other proposals in the president's fiscal year 2011 budget.

Over the long run, spending on children, defense, and unspecified areas is projected to decline as the temporary boost in spending under ARRA and other recovery legislation is fully spent down. Specifically, if ARRA provisions are not extended, federal spending on children is projected to fall to 1.9 percent of GDP in 2015–20, the same level as in 2006 and 2007. As a share of the federal budget, outlays on children are projected to fall further, to 8 percent, 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.

In contrast to the projected decline in spending on children, spending on the elderly and disabled is projected to rise steadily. The non-child portions of Medicare, Medicaid, and Social Security are projected to increase from 8.9 to 10.4 percent of GDP in 2020. This growth stems from a number of factors, including large increases in the number and share of the population that is elderly as the baby boom generation ages (the baby boomers began retiring in 2008) and the continuing rise in health care costs. As a result, spending on the elderly and disabled under these three major entitlement programs is projected to swell to nearly half (45 percent) of the entire federal budget in 2020. Since these programs are mandatory, they automatically grow unabated unless current policy is changed.

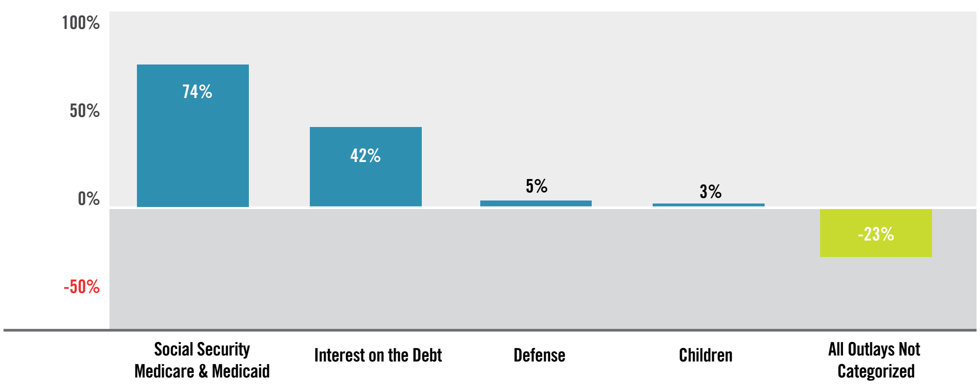
The strong growth in these three entitlement programs places upward pressure on total governmental outlays, which drop to 22 percent of GDP in the middle of the projection period and then creep back up to over 23 percent by 2020. Federal outlays far outstrip federal revenues in every

FIGURE 15 Actual and Projected Outlays on Children and Other Major Items in the Federal Budget, 2006–2020



Source: The Urban Institute and The Brookings Institution, 2010. Authors' estimates based on data from the *Budget of the U.S. Government Fiscal Year 2011* and previous years and CBO projections.
Note: Social Security, Medicare, and Medicaid excludes spending already captured as children's spending.

FIGURE 16 Share of the $1 Trillion in Additional Outlays from 2009 to 2020 Projected to Go to Children and Other Major Items in the Federal Budget



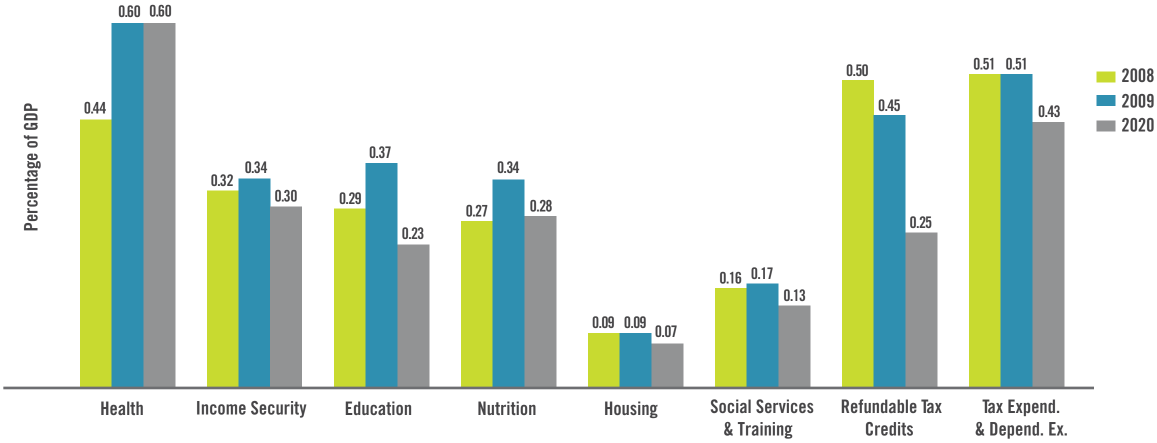
Source: The Urban Institute and The Brookings Institution, 2010. Authors' estimates based on data from the *Budget of the U.S. Government Fiscal Year 2011* and previous years, CBO projections, and Urban-Brookings Tax Policy Center Microsimulation Model projections.
Note: Social Security, Medicare, and Medicaid excludes spending already captured as children's spending.

year of the projection period. As the national debt continues to grow, interest payments are projected to rise dramatically, more than doubling from 1.3 percent of GDP in 2009 to 3.2 percent in 2020. Under current policies, spending on interest payments on the debt will exceed spending on children between 2014 and 2020, by larger and larger amounts each year.

As an additional comparison, consider the following breakdown: Between 2009 and 2020, total outlays are projected to increase by $1.1 trillion. While these projections do not fully incorporate the additions and subtractions in outlays from health reform or any other legislation passed in the near future, they still provide a baseline by which to consider the path before us. Nearly three-quarters (74 percent) of the anticipated increases in federal spending will be used for the automatic growth in Medicare, Medicaid, and Social Security. Growing interest payments on the national debt consume another two-fifths (42 percent). Together, the escalating costs of the three largest entitlements and interest payments will consume more than 100 percent of the anticipated growth in spending over the next 11 years, significantly squeezing other spending. In absence of reform, many programs will be cut. While some of this cut will occur with the decline in emergency spending under TARP, much also involves a relative and sometimes absolute cutback in other government services.

These projections of continued current law and policy suggest that under the "no reform" scenario, children's programs will receive a mere 3 percent of the new funds, largely

FIGURE 17 **Composition of Spending on Children in 2008 and 2009 (Actual) and 2020 (Projected)**



Source: The Urban Institute and The Brookings Institution, 2010. Authors' projections based on the *Budget of the U.S. Government Fiscal Year 2011* and past years, CBO's *Budget and Economic Outlook*, 2010–20, and Urban-Brookings Tax Policy Center Microsimulation Model.
Note: Refundable tax credits are unusually large in 2008; they were 0.38 percent of GDP in 2007.

through increased spending on health. Outside health, children would share in essentially none of the additional $1 trillion or more of additional spending over the coming decade. Defense would absorb another 5 percent. This budget also schedules large cuts (23 percent of the total) in other unspecified areas that could carry back over into pressure on children's programs (figure 16).

We don't mean to imply that this is what will occur. Health reform, enacted in 2010, will have effects that are still being debated, including provisions to cut costs and provisions to expand them. Further, an out-of-balance budget requires fixing, and the president and Congress will face challenging policy choices. Policymakers will have to make major reforms in entitlement spending for the elderly, successfully control the rate of increase in health care costs, increase taxes to pay for higher levels of spending, and/or cut spending significantly in the rest of the budget, including spending on children, if we are to avoid a future of ever-higher portions of our income servicing our national debt.

Composition of Children's Expenditures in 2008, 2009, and 2020

In the absence of legislative actions to increase or cut spending on children, CBO baseline projections suggest that spending on children will decline modestly as a percentage of GDP and rise modestly in absolute dollar terms. Outlays are projected to increase from $334 billion in 2009 to $366 billion in 2020, an average annual increase of 0.8 percent over the next 11 years. Total expenditures on children, including tax expenditures and the dependent exemption as well as outlays, are projected to rise by roughly 0.9 percent annually, from $406 billion to $450 billion.

Much of the increased spending on children will occur in Medicaid, as increasing health care costs drive up Medicaid spending for children as well as the elderly and disabled. As shown in figure 17, health is the only category of children's expenditures that comes close to maintaining its spending level between 2009 and 2020 when measured as a percentage of GDP, at 0.60 percent. The drop in enrollment of needy children as the recession eases will be offset by increased health care costs. Again, this analysis does not include the effects of health reform.

Spending is projected to decline as a percentage of GDP in almost all other areas, not just relative to 2009 (when spending was elevated due to the recession and ARRA) but also relative to 2008. The one exception is nutrition, where the 2020 level is below the 2009 level but slightly higher than the 2008 level: SNAP and child nutrition are both mandatory programs with benefits automatically adjusted for inflation, and thus hold their own better than many other children's programs.

Education spending is projected to decline more than other areas, whether measured from the ARRA-supported levels of 2009 or the pre-ARRA levels in 2008. There are no mandatory or entitlement spending programs in education; all education spending is discretionary and subject to annual struggles to maintain appropriation levels. Children's programs that face annual appropriations may be particularly vulnerable to future cuts as policymakers face a grim budget outlook.

conclusion

In a year marked by challenging economic conditions and increased federal government spending, federal expenditures on children increased in real terms between 2008 and 2009. The increases in federal spending on children largely stemmed from increased spending under the American Recovery and Reinvestment Act (which had twice the proportion of spending on children as the regular federal budget) and increases in Medicaid and Supplemental Nutrition Assistance, two large mandatory programs that expanded automatically during the recession. The combination of legislative and automatic spending increases demonstrates the federal capacity to expand spending on children's health, nutrition, and education in response to family and state needs during a recession.

At the same time, we do not yet know the trend for *total* spending on children in the midst of the recession. Much of the increased federal spending was designed to offset state and local cuts, particularly in education and health. State and local spending accounted for roughly two-thirds of total spending on children from 1998 through 2007 (the last year for which we had comprehensive spending data on children by states and localities), so changes in state and local expenditures could overwhelm the recent federal increases.

In the immediate future, budget projections suggest that many children's programs are projected to reach peak federal spending in 2010, after which outlays will drop off—assuming that temporary ARRA outlays end as scheduled and other policies continue unchanged. It is unclear how state budgets for children's programs will adjust to the impending "cliff" in spending after ARRA funds have been spent down in 2011. Education spending, in particular, may be strongly influenced by the timing and the extent of a recovery in state fiscal health and on the spending choices states make as they emerge from the grip of the recession.

Our ten-year projections of children's spending, always uncertain, are more so in this year's report because they are based on CBO projections that do not incorporate the additions and subtractions in outlays from health reform. Even so, they provide a baseline by which to consider the path before us. Under a continuation of current policies, we project that federal spending on children will shrink over the next decade, relative to the economy and as a share of the total federal budget, if current policies continue unchanged. In contrast to the projected decline in spending on children, spending on the non-child portions of Medicare, Medicaid, and Social Security is projected to rise steadily in real terms, as a percentage of GDP, and as a percentage of total spending. Spending on the elderly and disabled under these three major entitlement programs is projected to swell to nearly half (45 percent) of the federal budget in 2020, consuming three-quarters of the anticipated growth in spending over the next decade. Interest payments on the rising federal debt will put a further squeeze on all other components of the federal budget, including children's programs. From 2014 forward, annual interest payments on the debt are projected to exceed total outlays on children. Under the "no reform" scenario, children's programs will receive a mere 3 percent of all additional federal spending over the coming decade.

Unless current conditions change, the allocation of additional outlays over the next decade suggests a pattern where spending on children declines relative to the economy and the federal budget. This path can be altered, however. Reforms not considered in this analysis, such as the 2010 health reform and any further health reforms, any possible extensions of the American Recovery and Reinvestment Act, and proposals in the president's budget in the areas of education, taxes, and other areas, may significantly alter the picture of outlays spent on children in the future.

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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/412110.html.

end notes

1 For the number of children with unemployed parents, see Isaacs and Lovell (2010). For the increase in child poverty and the number of children receiving nutrition benefits, see Isaacs (2009a).

2 The earlier reports include 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 of specific age groups, including infants and toddlers (Macomber et al. 2008), prekindergarteners and kindergarteners (Kent et al. 2009), and elementary-age children (Vericker et al. 2009). For an overview of these analyses by age break, see *Public Investment in Children's Early and Elementary Years* (Macomber et al. 2009).

3 Some states do increase unemployment benefits for families with children through a dependent benefit. The American Recovery and Reinvestment Act of 2009 (ARRA) provides financial incentives for states to do so, and as of December 2009, 13 states were paying increased benefits for workers with children. (National Law Project, "Recovery Act Unleashes a Wave of UI Reforms," December 6, 2009). If more states provide dependent benefits, we might consider classifying a portion of unemployment benefits as spending on children. The ongoing evolution in how programs operate over time is one challenge we face in our attempt to classify spending on children consistently.

4 The two estimates, for example, use similar definitions of children (as those under 19), and the Rockefeller Institute researchers included 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, SCHIP, Maternal and Child Health Bureau, TANF, child support enforcement, child care, child welfare, etc.), and state earned income tax credits.

5 The data appendix is available at http://www.urban.org/publications/412110.html.

6 In conjunction with analyzing health reform and children's health expenditures in next year's report, we will consider expanding our estimate of children's tax expenditures to include an estimate of the children's share of the tax exclusion for employer contributions for health insurance. Since premiums often are larger for workers with children than workers without children, it would be useful to add such an exclusion in future reports, although we have had difficulty identifying the data to do so.

7 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 up OMB's estimates of tax provisions for individuals, even though such provisions are not strictly additive because of interaction effects. For this analysis, we do not include corporate tax expenditures, but we do add in our estimate of the dependent exemption so it would be included in our tax expenditure budget, to be consistent with our children's estimate. (The dependent exemption is not in OMB's estimate of total tax expenditures because OMB does not classify the dependent exemption as a special tax provision resulting in a tax expenditure but instead views it as part of the overall tax structure.) Our resulting total is $909 billion, including $875 billion in individual tax expenditures and $34 billion for the dependent exemption.

8 Our Urban Institute colleague Ajay Chaudry and his coauthor J. Lawrence Aber also found that 18 percent of ARRA went to children, although they used the earlier CBO estimate and somewhat different methodology (for example, they included Pell grants but did not include immunization funding). See "Low-Income Children, Their Families, and the Great Recession: What's Next in Policy?," http://www.urban.org/url.cfm?ID=412069.

9 State funds on elementary and secondary education declined by 0.5 percent (about $1 billion) between 2008 and 2009, even before adjusting for inflation, according to the *Fiscal Year 2008 State Expenditure Report* of the National Association of State Budget Officers. We estimate that state Medicaid spending also declined by $4 billion nominally. Federal increases in education and Medicaid were larger than the state declines in these two areas, but we cannot say if total investments increased between 2008 and 2009 because we do not yet have information on local spending on education in 2009.

10 The state estimate 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.

11 See Macomber et al. (2010). The proportion of funding provided by the federal versus state and local governments also varies significantly by age, ranging from 77 percent federal for infants and toddlers in 2004 to 27 percent federal for those age 6 to 11.

12 The estimate of elderly spending is not as comprehensive as the estimate of spending on children and thus may be conservative. The federal spending includes five major federal programs (Social Security, Medicare, Medicaid, Supplemental Security Income, and Supplemental Nutrition Assistance) and a rough estimate of spending on a dozen other programs based on CBO estimates of federal spending on the elderly in 2000 inflated to 2007. 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.

13 As explained in the methods section, unemployment benefits are not counted as spending on children because benefits to unemployed parents are generally the same size as benefits to individuals without children, and thus there is no marginal benefit attributable to children. However, see footnote 3.

14 Tax reductions benefitting children are included in this analysis, but not tax reductions benefitting the elderly and disabled. Tax reductions are consistently excluded in the comparison of spending on children and the elderly provided in figure 6. Note that between 1960 and 2009, the elderly population more than doubled (from 16.7 million to 39.6 million) while the child population grew by 17 percent (67.1 to 78.4 million).

15 For example, a cut in tax rates from 28 to 25 percent would reduce the value of a $3,500 exemption from $980 to $875, 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.

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

URBAN INSTITUTE

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

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1775 Massachusetts Avenue, NW
Washington, DC 20036
202 797-6000
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