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Losing Ground?

Federal Investments In Children Will Shrink Over the Next Decade if Present Policies Continue



Between 2006 and 2017, the share of the budget pie that the federal government will invest in children is projected to decline by 14 to 29 percent, conclude Eugene Steuerle and Gillian Reynolds of the Urban Institute and Adam Carasso of the New America Foundation in a paper for the Partnership for America's Economic Success. Forecasts of federal government spending indicate that over the same period annual domestic spending will rise by approximately \$650 billion in real dollar terms, but investments in children will garner nearly none of this increase.

Societies, like families, spend money in two ways: current consumption and investments for the future. Consumption includes spending on food, clothing, and entertainment. Investments include funding of roads and airports, scientific research and development, and human capital through education and other means of developing human capabilities.

Economists agree that investments are primary drivers of future economic growth for the country, and, in our increasingly knowledge-based economy, investments in human capital are among the most important. In addition, research suggests that investments in human capital programs

A 2006 Snapshot

- Under the broadest definition possible, the federal government's total investment spending for the nation in 2006 was at most 5 percent of GDP—about \$646 billion.
- Under this definition, the federal government's total investment spending for children in 2006 was 1.6 percent of GDP—about \$207 billion.
- The 1.6 percent had three components: 0.4 percent came from education and research investments, 0.3 percent from work supports, and 0.9 percent from social supports.
- With respect to domestic spending, this broad definition of federal investments accounted for less than a quarter of all federal domestic spending; investments in children for about a tenth. Under a stricter definition of investment, the investments in children were little more than 2 percent of all federal domestic spending.

57.52	AmWind	4.98	5	20.74	+0.06	38.5	72.97	57
35.00	AREnot	.601	13	71.99	-23	131.00	35	
37.72	AmSitter	.72	19	59.00	+42	59.47	37	
27.35	AmLower	cc	41.34	+03	u41.54	27		
29.53	APlasticK	24	15	36.25	-75	46.10	29	
20.54	AmeriCap		25.24	-06	29.65	20		
23.27	AmeriDing		37.81	-58	38.86	23		
33.43	AmeriDing		4.18	-74	63.08			
31.12	AmeriDing		1.08		19.50			



servicing children can sometimes yield significant returns to them and society for decades to come. Yet the federal government's investment in human capital programs focused upon children, modest at best relative to many other federal priorities, are likely to shrink in the future if current policies continue.

Definitive studies have not been done to assess the effectiveness, or "return," of many government investments. Still, even investment programs with modest positive returns are likely to yield higher returns than consumption-oriented programs that often yield zero or even negative growth effects. In that sense, the government is like a household: shifting spending toward investment is likely to enhance growth in both income and consumption in the future.

"Unlike investment in plant and machinery, which depreciates over time, investment in human capital may even appreciate, if passed from generation to generation."

— Steuerle, Reynolds, & Carasso

Federal Investments in Children, 1965-2006

Between 1965 and 2006, the federal government's *total investment spending* (all five categories in the box below) and total *investment in children* (the portion of the first three categories devoted to children) initially rose, then dipped, then rebounded, but the pattern—and whether there has been a net gain or reduction in investment—varies considerably by category. (See Figure 1.)

The *education and research* component of federal investments in children—a category that is predominantly education—is the one that benefits children most directly.¹

Over the last four decades, domestic spending has increased significantly, yet the small portion devoted to children's *education and research* has changed relatively little. From a high of 3.4 percent of domestic spending in 1970, it fell to 1.4 percent in 1990 and then rebounded somewhat at 2.3 percent by 2006. (See Figure 1.) (Over the same period, expenditures on education and research for children *and* adults fell

Defining Investment

Teasing out the children-specific investments buried in various federal programs requires a number of assumptions, including deciding which programs actually count as investments. A more narrow approach would count only *education and research*, while a broader one would include some portion of *work support* and *social support* programs, ordinarily thought of as "consumption" initiatives. The researchers reasoned that, while child care is classified as a *work support* program, high-quality early education programs also help children prepare for school and learning. Similarly, while health care services are categorized as *social support* programs, they can also provide some investment benefits for children, by increasing well-being and ability to perform.

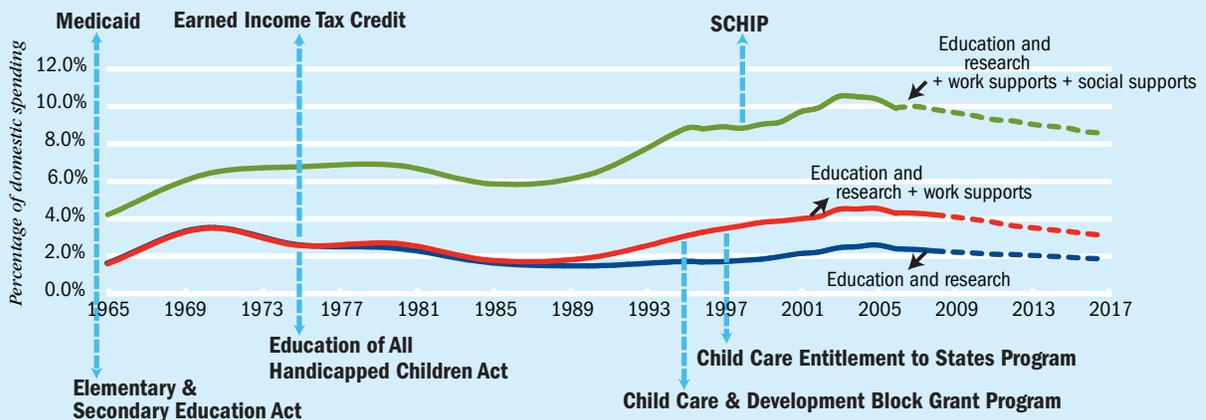
Within the broad categories at right, the researchers identified which programs—and what portion of them—specifically benefit children. They compared these investments to **Gross Domestic Product (GDP)**, to show their importance in the overall economy, and to **domestic spending**, to show their place relative to other federal domestic expenditures. (Throughout this paper, terms in **bold** are in the accompanying list of definitions.)

Five Types of Federal Government Investments

- ★ Education & research—programs that contribute to human capital; for children, these investments are primarily in education
 - ★ Work supports—programs for parents that support the labor supply and potentially build human capital
 - ★ Social supports—programs that mostly support consumption (health care, food, housing), but also have investment benefits by supporting workforce and school participation
 - Physical capital—investments that enable greater productivity through purchase of equipment, construction, and rehabilitation of existing infrastructure
 - Defense investments—these improve security for all residents
- ★ These investments help children directly and specifically



Figure 1. Federal Investments in Children: Education, Parental Work Supports, and Social Supports, 1965-2006, and Projections to 2017



Source: C. Eugene Steuerle, Adam Carasso, and Gillian Reynolds, The Urban Institute, 2007. Based on data from *Federal Budget: Analytical Perspective*, various years; *Appendix*, various years; *Historical Tables*, various years; *Health Care Financing Review* 2005.

from 14.1 to 7.9 percent of domestic spending.) In 1965, the largest federal educational program benefiting children was Impact Aid for selected school districts—today a relatively small component of the federal education total. Meanwhile, Head Start grew from \$494 million to \$6.9 billion over the period (in 2006 dollars). Two newer programs now account for almost 55 percent of the education category: education for the disadvantaged and special education.

In the parental *work supports* category, the **Earned Income Tax Credit** (EITC) and new child care programs—which did not exist in 1965—now provide around \$40 billion in investments for children annually. That investment increased from 0.3 percent of domestic spending in 1980 to 1.9 percent in 2006.

Over the past 41 years, investments in *social supports* for children have increased from 2.6 to 5.6 percent of the federal government’s domestic spending. Today, this category accounts for over a quarter of total potential investment programs for the nation, and almost 60 percent of investments for children. In 1965, by far the largest social support program for children was Aid to Families with Dependent Children (welfare), at just over \$6 billion (2006 dollars). In 2006, federal spending for Medicaid (\$30 billion), Section 8 low-income housing assistance (\$18 billion), Food

Stamps (\$17 billion), and the Child Nutrition program (\$12 billion) were all larger than federal expenditures for welfare (about \$12 billion).

Since 1965, these latter two categories have constituted the vast majority of the overall increase in programs with potential investments in children. Note that *social supports* in particular may have less investment orientation than education and research.

Future Federal Investments: 2006–2017

If current policies remain in place, including significant growth in automatically growing programs that largely do not go to children, the share of federal spending directed to investments will likely decline over the next decade for almost every type of investment. Specifically, the nation’s budget offices project a baseline level of spending that, if maintained, would imply the following:

- The children’s portion of *education and research* spending would drop from 2.3 to 1.8 percent of domestic spending
- Investments in *work supports* that benefit children would drop from 1.9 to 1.3 percent, while
- The children’s portion of *social support* investments would remain relatively unchanged, at

4.48	5	20.74	+0.08	30.8	72.97	37	
37.52	AmWoodl	.801	13	71.99	-23	131.00	35
35.00	AREnot	.601	7	86.04	-1.16	59.47	37
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31.42	AmSocSec		4.18	-74	18.50	33	
31.12	AmSocSec		1.01	-0.8	12.12	33	



2006–17: Snapshot of the Future, If Present Policies Continue...

- Under the broadest definition possible, the federal government's total investment spending would fall from 5 percent to 4 percent of GDP—a 20 percent drop.
- Under this definition, investment spending for children would fall from 1.6 percent to 1.3 percent of GDP—a 16 percent decline.
- Of a projected \$647 billion (31 percent) increase in annual domestic spending by 2017, children's education and research would see only \$90 million—slightly more than 0.01 percent. Adding in work supports, investments in children would actually fall \$5.8 billion. (See Figure 2.)

approximately 5.6 or 5.5 percent—maintaining this position only because of the continuing rise in health care costs, which, in turn, may increase the number of uninsured families.

Figure 1 shows how these investments have risen and fallen over time, as a portion of total domestic spending. Over the years, new programs have caused the curve to rise at times, while *social supports*, driven by rises in Medicaid and State Children's Health Insurance Program (SCHIP), have increased most rapidly. But, even with significant projected increases in Medicaid expenditures, future investments in children would decline as a percentage of domestic spending.

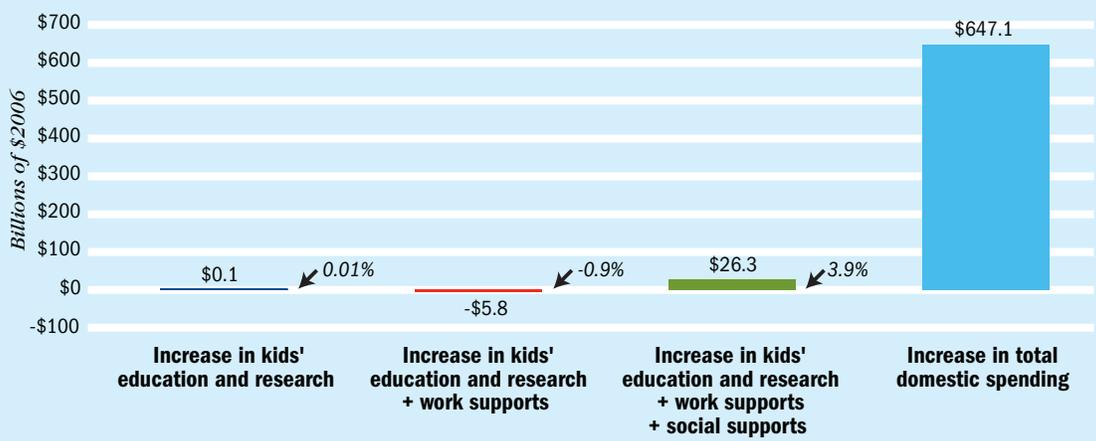
The downward pressure on investments in children is due in some part to the continued expansion in spending on mandatory or entitlement items in the budget that do not go through annual appropriations. The largest mandatory programs—Social Security, Medicare, and Medicaid—for the most part do not benefit children, their price tag automatically goes up every year, and their outlays *already accounted for 52 percent of the domestic federal budget in 2006*, according to the Congressional Budget Office. Moreover, GAO long-term projections imply that rising deficits could raise interest costs so much over time that all programs would be threatened.²

The net result is that, despite a projected \$647 billion (31 percent) increase in annual domestic spending by 2017, the share of the domestic spending pie that the federal

The unchecked rise in programs with built-in growth—that seldom include children—means that “almost all future revenues will be spent before that future has even arrived.”

— Steuerle, Reynolds, & Carasso

Figure 2. Change in Kids' Investment 2006-2017 Under Different Definitions of Investment



Source: The Urban Institute, 2007. Authors' estimates and projections, based on the *Budget of the U.S. Government FY 2008*, its *Appendix, Analytical Perspectives*, and CBO's *Budget and Economic Outlook, 2008-17*.



government will invest in children is projected to decline under almost any definition of investment, by somewhere between 14 and 29 percent. Meanwhile, investments in children through education and work support programs could decline not only in percentage terms, but in real dollars spent. (See Figure 2.) Again, the social support investment stays roughly steady as a percent of domestic spending mainly because of the high projected growth in Medicaid and SCHIP. These are programs whose investment (versus consumption) benefit is, in any case, more equivocal.

The Bottom Line

The United States budget is increasingly oriented toward consumption-based programs and less oriented to those investments aimed at enhancing economic growth. A contradiction is apparent. The long-term growth of these adult consumption programs depends upon the future taxes that our children will pay when they grow up, yet we seem to be scheduling smaller shares of national income toward the investments in the human capital they will need to attain higher earnings and pay those taxes. Certainly, then, a growth strategy requires greater attention to the federal government's posture toward investment, including investment in children. At the same time, to maximize returns possible, that strategy should be based on the best evidence available on what works and what does not.

Some definitions:

- **Children:** includes those under age 19 who are residents of the United States
- **Gross Domestic Product (GDP):** a measure of the market value of all goods and services produced in a given year
- **Domestic federal spending:** excludes defense and international spending
- **Earned Income Tax Credit:** a federal income tax credit for low-income working individuals and families. The credit is *refundable*, which means that people whose credit is larger than the taxes they owe can claim and receive it as a refund.

Find out more about the Benefits of Investing in Children

Julia Isaacs. "Cost-Effective Investments in Children." Budgeting for National Priorities Paper. Washington, DC: Brookings Institution, January 2007.

Available at: <http://www.brookings.edu/views/papers/200701isaacs.htm>.

Isabel Sawhill, ed. *One Percent for the Kids: New Policies, Brighter Futures for America's Children*. Washington, DC: Brookings Institution Press, 2003. Available at: <http://www.brookings.edu/press/books/onepercentforthekids.htm>.

Coalition for Evidence-Based Policy, <http://www.evidencebasedprograms.org/>.

National Scientific Council on the Developing Child. "The Science of Early Childhood Development." Based at the Center on the Developing Child, Harvard University, 2007. Available at: <http://www.developingchild.net>.

¹ *Education and research* includes the federal civilian science budgets, including NASA, NIH, National Science Foundation; research conducted by the Departments of Agriculture, Energy, and Transportation; federal spending on elementary, secondary, and vocational education; training programs for children and adults of all ages; federal support for higher education; and education and training for veterans, among other functions.

² See U.S. Government Accountability Office. 2007. *The Nation's Long-Term Fiscal Outlook: April 2007 Update*. GAO-07-983R. Washington, DC: U.S. Government Accountability Office.





The Partnership for America's Economic Success was created by a group of business leaders, economists, advocates, and a dozen funders, in order to document the economic impacts to the nation of proven investments in children from before birth and to age five. The Partnership is managed by The Pew Charitable Trusts.

This brief is based on "Investing in Children," by C. Eugene Steuerle and Gillian Reynolds of The Urban Institute and Adam Carasso of The New America Foundation. A data appendix is available at www.urban.org/uploadedPDF/411521_appendix.pdf. The authors appreciate the thoughtful reviews from Jeffrey Liebman, Maya McGuineas, Rudolph Penner, and Isabel Sawhill. The views expressed are those of the authors and not necessarily those of the reviewers, the authors' organizations, or The Pew Charitable Trusts.

Investing in children is investing in our nation's economic success.

For more information (including the full paper and citations), see www.PartnershipforSuccess.org.

"Early environments play a large role in shaping later outcomes. Skill begets skill and learning begets more learning. Early advantages cumulate; so do early disadvantages. Later remediation of early deficits is costly, and often prohibitively so, though later investments are also necessary since investments across time are complementary. Evidence on the technology of skill formation shows the importance of early investment. At current levels of public support, America under-invests in the early years of its disadvantaged children. Redirecting additional funds toward the early years, before the start of traditional schooling, is a sound investment in the productivity and safety of our society."

—Nobel Prize Winner and University of Chicago Professor James Heckman

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