



Securing Our Future?

Rethinking Public
Investments in
America's Children

FOUNDATIONFORCHILD DEVELOPMENT

October 2010

MISSION

The Foundation for Child Development is a national private philanthropy dedicated to the principle that all families should have the social and material resources to raise their children to be healthy, educated, and productive members of their communities.

The Foundation seeks to understand children, particularly the disadvantaged, and to promote their well-being. We believe that families, schools, nonprofit organizations, businesses, and government at all levels share complementary responsibilities in the critical task of raising new generations.

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FOUNDATIONFORCHILDDEVELOPMENT

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The persistence of the Great Recession provides us with the opportunity to engage in a long overdue conversation about public investments in America's children. Less than ten percent of the Fiscal Year 2010 federal budget of \$3.603 trillion is allocated to children and youth.

This percentage is likely to decline in the next decade if current laws and policies remain unchanged. While state and local governments spend more on children than the federal government, especially for public education, these investments vary greatly from state to state.

The fiscal fragility of governments at all levels, combined with growing disparities in family resources, points directly to the vulnerability of large numbers of America's children. At the same time, the Baby Boomer population, born between 1946 and 1964, is a very large group with increasing needs for health care and retirement benefits. This older generation will depend on the health, productivity, and well-being of the children and youth growing up today. It makes good sense to invest in our children, but how much should that be?

How should a society like ours – a leading democracy with strong values of individualism and entrepreneurial effectiveness – make the tough choices about allocating public resources to each generation of Americans? How do we respect a wide range of diversity in our communities, yet share a common sense of purpose as a nation?

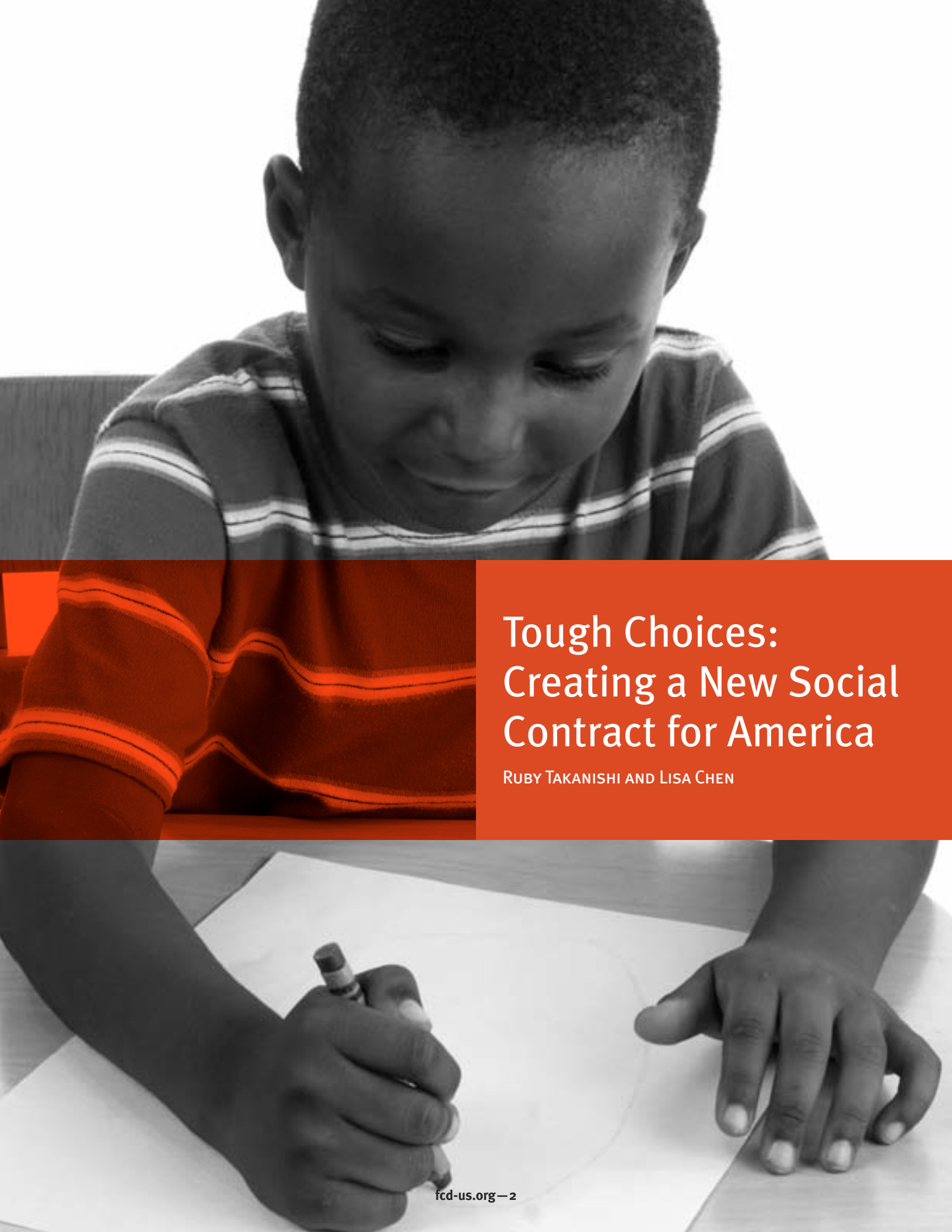
The annual essay recommends specific policies that should be considered in the courageous conversations that must take place immediately, so that corrective actions can follow shortly thereafter.

The Foundation for Child Development seeks partners in philanthropy, the nonprofit sector, and in government to engage in the efforts needed to secure a more equitable future for all our children.

Let this difficult work begin.

P. Lindsay Chase-Lansdale
Chair

Ruby Takanishi
President and CEO



Tough Choices: Creating a New Social Contract for America

RUBY TAKANISHI AND LISA CHEN

Each budget session in our nation's capital triggers a series of time-worn rituals. The President unveils his budget plan. Lobbyists protect their industry or region or interests. Tax cutters demand lower taxes. Advocates scramble to preserve their favorite social programs. Deficit hawks wring their hands. And everyone invokes the value of investing in America's future.

But what does it mean, exactly, to invest in our nation's future? For some, it means creating jobs and avoiding or recovering from a recession. For others, it means driving down our huge deficit. But government doesn't exist merely to deal with recessions or to cut deficits. For everyone, investing in the future most certainly means making sure children and future generations have the opportunity to flourish.

Trading Off Our Future

Yes, progress on all these fronts is inadequate, in no small part because of years of neglect in preparing for present circumstances, many of which have been anticipated for some time. The federal deficit is projected to climb to a staggering \$1.47 trillion by the end of 2010. The recession has hurt job growth, and it has surely exposed just how vulnerable Americans—high school graduates especially, and even college graduates—are to downturns in a global, skills-based economy.

But think again. Businesses may struggle for short-term survival, but they do not lose their long-term investment focus, as it is only through investment that long-term growth can be obtained. Yet, when it comes to politics, the relative lack of investments in children is where all the well-meaning rhetoric falls painfully short.

Over the past five years, less than one dime out of every dollar in the federal budget has gone to children. We may joke about “giving away our first-born” to get what we want now. Yet when it comes to the federal budget, this tradeoff has become all too literal.



A SNAPSHOT OF BUDGET PRIORITIES IN KENTUCKY

Kentucky's 2012 state budget reflects many states' diminished investments in children. The fiscal fragility of state investments in children are reflected in budget cuts including:

- **\$21 million less for textbooks**
- **\$3 million less for PreKindergarten**
- **\$3 million less for youth services and family resources**
- **\$2 million less for professional development for teachers – on top of nearly \$12 million in cuts between 2008-2009**

Since 1992, state spending on health and retirement has increased by \$620 million, while investing in PreKindergarten-12th Grade education has grown only by \$22 million.

Source: Sexton, Robert F. (2010, July 19) *New Budget Is Step Backwards for Kentucky Kids.* *COURIER-JOURNAL.*

Balancing The Generational Scales

As Eugene Steuerle, Richard B. Fisher Chair and Institute Fellow at The Urban Institute, has noted, never before has so much been promised so far into the future. Where is the money going? (1) To entitlement programs whose future funding is mandated by law – the two largest of which benefit older adults. (2) To paying interest on the debt arising from our large deficits. And (3) to support the tax cuts that reduced revenues well below the spending we were undertaking, even in good times.

Contrast our commitments to children with other parts of the budget. The non-child portions of Medicare, Medicaid and Social Security, which together comprise 44 percent of federal domestic spending, have jumped nearly four-fold since 1960. The Center for Budget and Policy Priorities has projected that federal spending on these programs will consume an additional 5.6 percent of GDP in the next two and a half decades, from 10.1 percent in 2009 to 15.7 percent in 2035, as more and more Americans reach the current retirement age. This is tantamount to adding another Social Security program to the federal rolls without any additional money to pay the bill. The 2010 passage of national health care reform is expected to help bring down another major strain on government coffers – spiraling health costs – but this is far from guaranteed.

At the same time, spending on children is projected to drop over the next ten years, if we continue down the road of increased spending on these other federal programs and on interest on our debt. Currently, less than 10 percent of the federal outlay is invested in children. This drop-off could not happen at a worse time for America's children. Meanwhile, state and local governments that invest larger percentages on children are slashing their child-related budgets (see box, "A Snapshot of Budget Priorities in Kentucky"). While some indicators suggest that the economy is rebounding slowly, things will get much worse for children before they get better.



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Adjusting the generational balance will ultimately help grow our economy, and give our children every opportunity to succeed. These will be exceedingly difficult conversations. They must begin now.

According to the Foundation for Child Development's Child Well-Being Index (CWI), there is typically a lag time between when a recession hits and when children's well-being – from their health to their educational performance – recovers. Poverty scars both the hearts and minds of young children. Research shows that children who slip into poverty, even for a short time, suffer long-term setbacks that can have spiraling, lifetime effects on the capacity of our workforce and the economy. Our budget priorities should correct for these fluctuations, instead of contributing to children's vulnerability in hard times.

There is no question that older Americans have made our country what it is today. They deserve our support in their retirement years. But we must seriously rethink how little we currently spend to support our youngest Americans. Adjusting the generational balance will ultimately help grow our economy, and give our children every opportunity to succeed. These will be exceedingly difficult conversations. They must begin now.

Renewing Our Social Contract

At the heart of these conversations is the federal budget, arguably the most concrete expression we have of a social contract with all Americans. This contract – or budget – sets in place the institutional foundations that we all agree as a society to share, both in terms of what we put in, and in the returns we hope to reap.

We are long overdue for creating a new social contract: one that strikes a fair balance between competing obligations and that assures all Americans that they live in a just and equitable society.

What would such a social contract look like? Many policy analysts have put forward smart, practical solutions for recalibrating our social and economic priorities, improving the budget process, and generating much-needed revenue. A number of the most promising ideas are presented in the following sections.

Consider A One Percent Solution

In 1999, the Blair Government in Great Britain set a bold goal of eradicating child poverty and reducing economic inequality by 2020. When this initiative began, one in four of Britain’s children lived in poverty. By the sixth year of the initiative, 17 percent of Britain’s youth population had been successfully lifted out of poverty. (See “Britain’s Success...” box on page 9.)

The newly elected coalition government under Conservative Prime Minister David Cameron has pledged to meet the 2020 goal. While it is too early to tell how the change in leadership will affect the initiative, the lesson for the United States is clear: To build a strong future for our nation, we must set a similarly bold agenda and back it up with the political will necessary to succeed. It requires putting our money where our mouth is. The British have invested close to an extra one percent of GDP to achieve their goal.

The United States must do the same – commit one additional percent of GDP for children over the next 20 years – if we are serious about investing in our nation’s future. Here’s where that additional investment would go:

Invest in early learning. Making sure that all children get a quality PreK-3rd education is arguably the most effective policy we can take to secure their future. Long-term evaluations of PreK-3rd programs like Chicago’s Child-Parent Centers show that young children who receive quality education from age three to eight do better in school, are more likely to stay out of the juvenile justice and child welfare systems, and are more likely to have good jobs with health benefits when they reach young adulthood. The pathway to postsecondary education does not start at high school, but much, much earlier. And that initial investment in early learning, according to leading economists like James Heckman, must be sustained with quality education through middle and high school.



Britain's Success in Reducing Child Poverty: Seven Lessons for the U.S.

- 1. Address child poverty.** Britain's war on poverty demonstrates that it is possible to substantially improve children's lives on a large scale, provided there is political leadership and the will to make it happen.
- 2. Announce the goal.** Setting a goal results in processes and programs to try to achieve the goal.
- 3. Invest in the youngest children** so they receive more than or equal the benefits as older children (11+ years-old). Provide universal PreKindergarten, and earmark benefits specifically for families with the youngest children who face the greatest challenges with work and child rearing responsibilities.
- 4. Support working parents** by expanding paid maternity leave and establishing paid paternity leave so parents can stay at home with their newborns. Establish the right for parents to request part-time and flexible hours.
- 5. Establish a national minimum wage that is updated annually** to reflect cost-of-living changes and other economic factors.
- 6. Make federal Child Tax Credit fully refundable and available** to all low- and middle-income families whether or not parents are employed.
- 7. Reform jobs subsidies** such as the Earned Income Tax Credit so it no longer excludes many low-income workers.



Moving parents into full-time jobs is an effective strategy for pulling children out of poverty.

Support working families. Lifting a child means lifting the fortunes of his or her parents. Moving parents into full-time jobs is an effective strategy for pulling children out of poverty. Doing so means investing in the social safety net, including affordable health insurance and paid family leave, that helps parents balance the demands of work and child-rearing.

Other solutions can take the form of subsidies to families and low-income families in particular. Tax policy for families can simplify, integrate, and expand the Earned Income Tax Credit and Child Tax Credit and other family-focused tax measures.

Making Tough Choices

One percent of GDP translates to an estimated \$90 billion per year. Inaction will cost us much more dearly in the near future. Funding is likely to come from a combination of sources, and will require a number of reforms and tough decisions that have been a long time in coming. Among the difficult choices:

Rethinking Social Security and Medicare. These two entitlement programs are currently not part of the annual budget decision-making process. But their growth should not be so automatic that children's programs must be left fighting for a dwindling pile of resources. Americans are aging – but they are healthier than previous generations and they are living longer. Many may be forced to delay retirement. While it is possible that the Baby Boomer population may change the ways in which Americans think about their “golden years,” we must also take a close look at policies that favor retirement.

Within less than three decades, nearly a third of the adult population will be eligible for Social Security. Meanwhile, the U.S. birthrate is down, which means that the number of taxpayers contributing to the growing demand for retirement revenues is contracting. This situation is unsustainable.

Last year, a bipartisan group of federal budget and policy experts put forward a plan to the Obama Administration that would subject these programs to five-year review. The idea is to give the public and elected officials a chance to decide explicitly how much they want to spend on these programs in the context of competing priorities. Enacting this reform could help reduce future deficits and lead to more sustainable budgets.

Changing tax laws. If we continue with current tax laws, we will not be able to generate the revenue necessary to care for our older members of our families, much less our children. Among the potential solutions are to return to 2000 income tax rates; raise the Social Security earnings ceiling; or repeal the 2003 capital gains and dividend tax reductions. Some believe we should institute a value-added tax both to raise revenues and to simplify the income tax. Taxes should at least be raised to a level where they support expenditures—at least in non-recessionary years. That way, rising interest costs on the debt will not further threaten our ability to invest in kids.

Reforming the budget process itself and instituting fiscal discipline. There is no point in renovating a house without first fixing a flawed foundation. It is likely that the current recession may force changes in the budget process at both the federal and state levels, as hardship spreads to a larger number of American families.

Scrutinizing military spending. The U.S. is the world's leading military power. Almost forty-seven percent of the world's military expenditures are accounted by U.S. military spending. The U.S. currently spends nine times more money on its military forces than on all other forms of security, including diplomacy, nuclear nonproliferation, peacekeeping, foreign aid and homeland security combined. Committing one additional percent of GDP for children represents roughly seven percent of the President's proposed \$708 billion 2011 defense budget.

Our national security should never be compromised, but every effort must be made to eliminate defense programs that do not make us safe, and to share security and peacekeeping costs with other leading powers.



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Any effort to lay a strong foundation for the nation's long-term future must involve a greater investment in children.

Investing In Children: The Right Choice

Any effort to lay a strong foundation for the nation's long-term future must involve a greater investment in children. Nancy Folbre, Professor of Economics at the University of Massachusetts at Amherst, argues that perhaps the best way to drive this home is to restructure our national income accounts so that both private and public expenditures on children are labeled as investment rather than consumption. In fact, investments by parents in their children have long-term benefits for the whole society when they allow children to become more productive and contributing members of their communities.

Let Difficult Conversations Begin

Those concerned about government spending should understand that keeping to the current minimal investments we make in children today is already costing us plenty. While the American Recovery and Reinvestment Act (ARRA) has averted what would have been deep cuts for domestic spending programs, it is, at best, a short fix. The annual cost of children growing up in persistent poverty is half a trillion dollars.

Acting on the policy ideas described requires that policymakers engage in difficult conversations and make tough decisions. The recession may have made these decisions even harder, but they won't get any easier. Indeed, 20th Century history shows that a fiscal crisis can produce the conditions for radically rethinking how we spend and where we invest our public funds.

The United States faces tough choices involving questions for which there may be no perfect answers. The most important step forward is to have the courage to start the conversations now.

ABOUT THE AUTHORS

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The Foundation for Child Development does not accept unsolicited proposals.

WHAT WE FUND

The Foundation for Child Development, through its PreK-3rd Initiative, supports the restructuring of PreKindergarten, Kindergarten, and Grades 1 to 3 into a well-aligned first level of public education for children (ages three to eight) in the United States. FCD supports research, policy development, advocacy, and communications strategies related to our PreK-3rd Initiative.

The Foundation's New American Children program focuses on stimulating basic and applied research on children (birth through age nine), particularly those living in low-income immigrant families.

The Foundation for Child Development awards an average of 14 grants each year. Please see our complete listing of grants, available on our web site (www.fcd-us.org), for details about specific grant-funded projects.

WHAT WE DO NOT FUND

- The direct provision of PreKindergarten education, child care, or health care
- Capital campaigns and endowments
- The purchase, construction, or renovation of buildings
- Grants for projects outside the United States

FINANCIAL STATEMENTS — APRIL 1, 2009 - MARCH 31, 2010

(Condensed from Audited Financial Statements)

Foundation for Child Development Condensed Statement of Financial Position

	<i>Fiscal years ending March 31</i>	
	2010	2009
Assets		
Cash and cash equivalents	\$ 702,806	\$ 2,969,867
Investments at fair value	92,773,052	74,630,815
Investment interest income receivable	13,200	13,200
Prepaid expenses and other assets	132,996	103,554
Federal Excise Tax refund receivable	22,219	88,897
Fixed assets net of depreciation	88,768	36,809
Total Assets	\$ 93,732,321	\$ 77,843,142
Liabilities and Net Assets		
Liabilities:		
Grants payable	\$ 1,731,098	\$ 3,432,135
Accounts payable and accrued expenses	115,187	80,738
Deferred Federal Excise Tax payable	250,000	—
Total liabilities	\$ 2,096,285	\$ 3,512,873
Net assets:		
Unrestricted	88,577,498	71,121,731
Permanently restricted	3,058,538	3,058,538
Total net assets	\$ 91,636,036	\$ 74,330,269
Total Liabilities and Net Assets	\$ 93,732,321	\$ 77,843,142

Condensed Statement of Activities

	<i>Fiscal years ending March 31</i>	
	2010	2009
Changes in Net Assets		
Investment return:		
Dividend and interest	\$ 1,086,687	\$ 1,593,649
Net realized (loss) gain on investments	8,279,473	(3,507,803)
Net unrealized gain (loss) on investments	14,115,915	(30,788,968)
	\$ 23,482,075	\$(32,703,122)
Less: Costs attributable to investments	532,293	315,850
Net investment return	\$ 22,949,782	\$(33,018,972)
Contributions	11,877	25,885
Other income	1,092	591
Total revenue (deficit)	\$ 22,962,751	\$(32,992,496)
Expenses:		
Grants to institutions	\$ 2,556,925	\$ 1,339,987
Internally administered programs	641,000	1,465,000
Direct charitable activities	991,949	1,030,313
Operations and governance	1,151,089	701,548
Grants administration	139,343	166,800
Federal excise tax	176,678	23,781
Total expenses	\$ 5,656,984	\$ 4,727,429
Change in net assets	\$ 17,305,767	\$(37,719,925)
Net assets at beginning of year	74,330,269	112,050,194
Net Assets at End of Year	\$ 91,636,036	\$ 74,330,269

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