



JULY

KIDS' SHARE 2018

REPORT ON FEDERAL EXPENDITURES
ON CHILDREN THROUGH 2017
AND FUTURE PROJECTIONS

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EXECUTIVE SUMMARY

Public spending on children aims to support their healthy development, helping them fulfill their human potential. As such, federal spending on children is an investment in the nation's future. To inform policymakers, children's advocates, and the general public about how public funds are spent on children, this 12th edition of the annual *Kids' Share* report provides an updated analysis of federal expenditures on children from 1960 to 2017. It also projects federal expenditures on children through 2028 to give a sense of how budget priorities may unfold absent changes to current law.

A few highlights of the chartbook:

- In 2017, 9 percent of the federal budget (or \$375 billion of \$3.9 trillion) was spent on children younger than 19 (page 24).
- An additional \$106 billion in tax reductions was targeted to families with children. Combining budget outlays and tax reductions, federal expenditures on children totaled \$481 billion (page 10).
- More than three-fifths of expenditures on children are from tax provisions or health programs. Medicaid is the largest source of federal support for children, followed by the earned income tax credit and the child tax credit (page 12).
- The share of federal expenditures for children that is targeted to low-income families has grown over time, reaching 61 percent in 2017 (page 46).
- Looking forward, children's programs are projected to receive just one cent of every dollar of the projected \$1.6 trillion increase in federal spending over the next decade (page 32).
- Under current law, the children's share of the budget is projected to drop from 9.4 percent to 6.9 percent over the next decade, as spending on Social Security, Medicare, Medicaid, and interest payments on the debt consume a growing share of the budget (page 26).
- By 2020, the federal government is projected to spend more on interest payments on the debt than on children (page 30).
- Over the next decade, every major category of spending on children (health, education, income security, and so on) is projected to decline relative to GDP (page 52).

INTRODUCTION

Public expenditures targeted to children can help ensure that children receive the resources they need to reach their full potential. Though parents and families provide most of children's basic needs, broader society plays a vital role in supporting their healthy development. For example, nutrition benefits, housing assistance, and health insurance programs support children's needs for food, shelter, and good health, while investments in early education and public schools promote learning and equality of opportunity. Public and private investments made in children today have far-reaching consequences for society in the future, with effects on tomorrow's workforce; economy; and educational, criminal justice, and health systems.

Increased understanding of how childhood circumstances affect lifelong outcomes has led to more public support for children's programs and tax credits. Even so, spending on children is not always prioritized relative to other categories of the federal budget. The Urban Institute's *Kids' Share* series tracks government spending on children each year.¹ How our government spends money, and who benefits from that spending, reflects our national priorities. Knowing which programs spend the most on children and how investments in children are changing over time can inform debates on budget, tax, and appropriations legislation, where policymakers must make difficult trade-offs.

The challenges facing American children provide context for this report. Child poverty rates, which rose during the Great Recession, have finally returned to the levels of 2007, the year before the recession. Even so, the child poverty rate (18.0 percent in 2016) is much higher than poverty rates for adults ages 18 to 64 (11.6 percent) and seniors ages 65 and older (9.3 percent). Family incomes are unequally distributed, and many children live in families with low incomes. Among 29 developed countries, the United States has the second-highest child poverty rate. Setting aside the legitimate debate over how well poverty is measured, the United States also ranks poorly on measures of birth weight (23rd); preschool enrollment rates (26th); the share of 15- to 19-year-olds participating in education, employment, or training (23rd); and a composite measure of child well-being (26th, in the company of Lithuania, Latvia, and Romania).²

ABOUT KIDS' SHARE

The *Kids' Share* annual reports provide a comprehensive picture of federal, state, and local expenditures.

They also show long-term trends in federal spending, including historical spending to 1960 and projected spending 10 years into the future, assuming no changes to current law. These reports have been the foundation for additional Urban Institute analyses on the impact of the president's budget on future spending on children (Lou, Isaacs, and Hong, forthcoming) spending on children by age group (Hahn et al. 2017), spending differences across states (Isaacs 2017), and spending on low-income children (Vericker et al. 2012).³

Outside organizations and researchers, including First Focus, the Committee for a Responsible Federal Budget, the Center for the Study of Social Policy, and researchers writing for *Brookings Papers on Economic Activity*, also rely on *Kids' Share* data and reports to produce additional studies; journalists and political commentators also cite statistics from *Kids' Share*.⁴

The *Kids' Share* series does not judge whether current expenditures meet children's needs, nor does it measure or incorporate private spending on children. The report does not prescribe an optimal division of public dollars or resources. Instead, *Kids' Share* provides program-by-program estimates of government support for children and its change over time. This

annual accounting of spending on children can inform Congress as it considers legislation introducing or amending individual children's programs or tax provisions, sets funding levels in annual appropriation bills, and debates broad tax and budgetary reform packages that may shift the level and composition of public resources invested in children.

This report, the 12th in the annual series, quantifies federal spending in fiscal year 2017. The report is divided into three major sections:

- 1. Recent Expenditures on Children**, focusing on expenditures in 2017 and in recent years, including state and local as well as federal expenditures.
- 2. Broad Trends in Federal Spending**, comparing past, present, and future spending on children with spending on defense, health and retirement programs, interest payments on the debt, and other federal budget priorities. This section also compares spending per capita on children and the elderly.
- 3. A Closer Look at Federal Expenditures on Children**, examining such issues as growth in means testing of benefits from 1960 to 2017 and projected growth or decline in specific categories of spending on children (e.g., health, education, tax provisions) from 2017 to 2028.

Calculating spending on children today requires making multiple estimates based on detailed data collection combined with reasonable assumptions; projecting spending into the future requires even more assumptions. Our methodology for developing our estimates is provided in a short methods appendix, with additional detail in *Data Appendix to Kids' Share 2018* (Hong et al. 2018). To facilitate comparisons over time, past and future expenditures are reported in real dollars (inflation adjusted to 2017 levels), as a percentage of the economy (percentage of GDP), or as a percentage of the federal budget.

GLOSSARY

Children: People from birth through age 18.

Expenditures on children: Expenditures from programs and tax provisions that (1) benefit only children or deliver a portion of benefits directly to children, (2) increase benefit levels with increases in family size, or (3) require that families have a child to qualify.

Outlays: Direct spending from federal programs as well as the portions of refundable tax credits that exceed tax liability and are paid out to families.

Tax reductions: Reductions in families' tax liabilities (and revenues losses to the federal government) resulting from tax exclusions, deductions, and credits that benefit specific activities or groups of taxpayers. These provisions include the portions of tax credits not paid out to families as tax refunds.

Mandatory spending: Spending governed by programmatic rules, not constrained by annual appropriations acts; includes spending on entitlement programs and other programs designated as mandatory spending as well as the refundable portion of tax credits.

Discretionary spending: Spending set by annual appropriations acts; policymakers decide each year how much money to provide. In recent years, discretionary spending has been constrained by spending caps set separately for defense and nondefense discretionary spending.

Real or 2017 dollars: Expenditures that have been adjusted for inflation.

¹The earlier *Kids' Share* reports are Clark et al. (2000); Carasso, Steuerle, and Reynolds (2007); Carasso et al. (2008); Isaacs et al. (2009, 2010, 2011, 2012, 2013, 2015, and 2017); Hahn et al. (2014); and Edelstein et al. (2016).

²See UNICEF Office of Research (2013). In that study, child poverty is measured as the percentage of children living in households with income below 50 percent of the national median income, which is higher in the United States than in many other countries.

³Additional reports that build on the *Kids' Share* database include analyses of spending on children by age of child (Edelstein et al. 2012; Kent et al. 2010; Macomber et al. 2009, 2010; Vericker et al. 2010).

⁴The First Focus *Children's Budget* series, including *Children's Budget 2017* (First Focus 2017), provides detailed, program-by-program information on appropriations for children's programs from 2011 to 2017 as well as the president's proposed funding for 2018. Other analyses drawing on *Kids' Share* data include Bruner and Johnson (2017), Committee for a Responsible Federal Budget (2017), and Hoynes and Schanzenbach (2018).

RECENT LEGISLATION

Three pieces of major legislation enacted within the past 12 months have important effects on children's spending in 2018 and future years. The Tax Cuts and Jobs Act of 2017 significantly expanded the child tax credit while eliminating the dependent exemption, effective calendar years 2018–25. Moreover, the Bipartisan Budget Act of 2018 and the Consolidated Appropriations Act of 2018 increased funding for defense and nondefense discretionary spending in 2018 and 2019 (including substantial increases in discretionary child care funding); at the same time, in absence of future legislation, current law requires strict caps in spending to be reimposed in 2020. Some of the effects of these legislative changes are somewhat visible in future projections (particularly in figures 8 and 14). However, detailed analysis of the effects of this legislation on spending on children will not be available until *Kids' Share 2019*.



RECENT EXPENDITURES ON CHILDREN

In this section, we describe federal expenditures on children for fiscal year 2017, the most recent year for which complete federal spending data are available, and changes in expenditures in recent years. We first present federal expenditures on children, addressing the following questions:

- How much does the federal government spend on children, and how does current spending compare with recent years?
- To what programs and categories (e.g., health, education, tax provisions) are expenditures directed?
- How did federal expenditures on children change between 2016 and 2017?
- How has the Budget Control Act of 2011 affected spending on children?

This discussion is followed by a more comprehensive examination that brings in state and local spending in recent years to answer the question:

- How much do state and local governments contribute to spending on children?



How much does the federal government spend on children, and how does current spending compare with recent years?

In 2017, federal expenditures on children totaled \$481 billion. This total includes budget outlays for federal programs (\$301 billion) and refundable tax credits (\$74 billion), as well as an additional \$106 billion in tax reductions targeted to families with children. The \$375 billion in budget outlays spent on children is 9 percent of the over \$3.9 trillion in outlays in the complete federal budget.

Federal investments in children have been basically flat for the past few years, after adjusting for inflation. Spending remains lower than in 2010 and 2011, in part because of recovery from the recession but also because budgetary pressures have squeezed the share of resources devoted to children (discussed later in this chartbook).

Looking back over the past decade, federal expenditures have been shaped primarily by the Great Recession:

- From 2009 to 2011, spending on entitlement programs such as Medicaid and the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) automatically increased because more children were living in poverty.
- The American Recovery and Reinvestment Act of 2009 (ARRA), enacted in response to the Great Recession, also temporarily boosted spending on children. Almost one-quarter of ARRA funds benefited children.⁵ ARRA provided federal stimulus funds (e.g., expansions in nutrition assistance benefits and the child tax credit); relief to states and localities (through the State Fiscal Stabilization Fund,

which was targeted to education, and a temporary increase in the federal share of spending on Medicaid and child welfare); and increased funding for several federal early education and care programs.

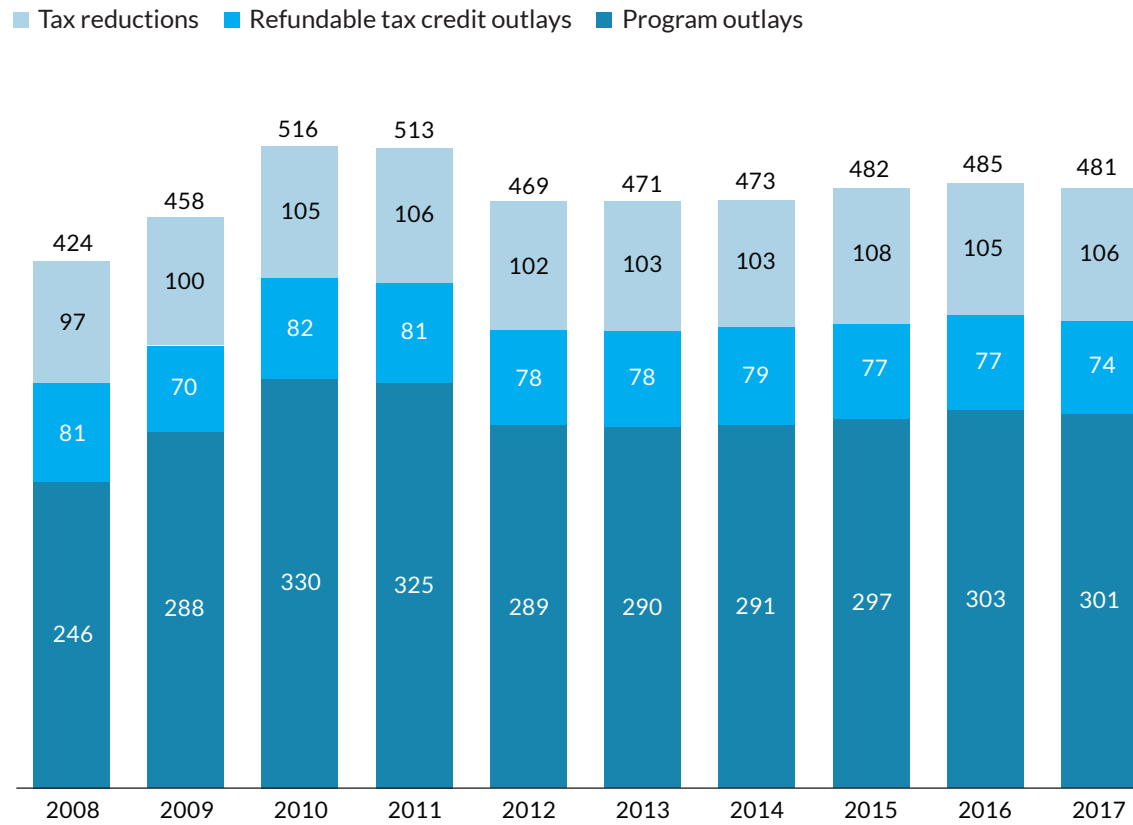
- Much of the decline in dollars spent on children after 2011 is a result of the recovery from the recession and depletion of the temporary ARRA funds. In addition, the Budget Control Act and larger budgetary pressures have constrained certain types of spending on children from growing along with the economy and federal revenues.

⁵ See *Kids' Share 2012* (Isaacs et al. 2012). An estimated 24 percent of ARRA outlays were targeted to children from 2009 to 2019.

FIGURE 1

Federal Expenditures on Children by Expenditure Type, 2008–17

Billions of 2017 dollars



Summing outlays and tax reductions, federal expenditures on children in 2017 totaled \$481 billion.

Source: Authors' estimates based primarily on Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019* (Washington, DC: US Government Printing Office, 2018) and past years. For more source information, see the appendix.

Note: Numbers may not sum to totals because of rounding.

To what programs and categories are children's expenditures directed?

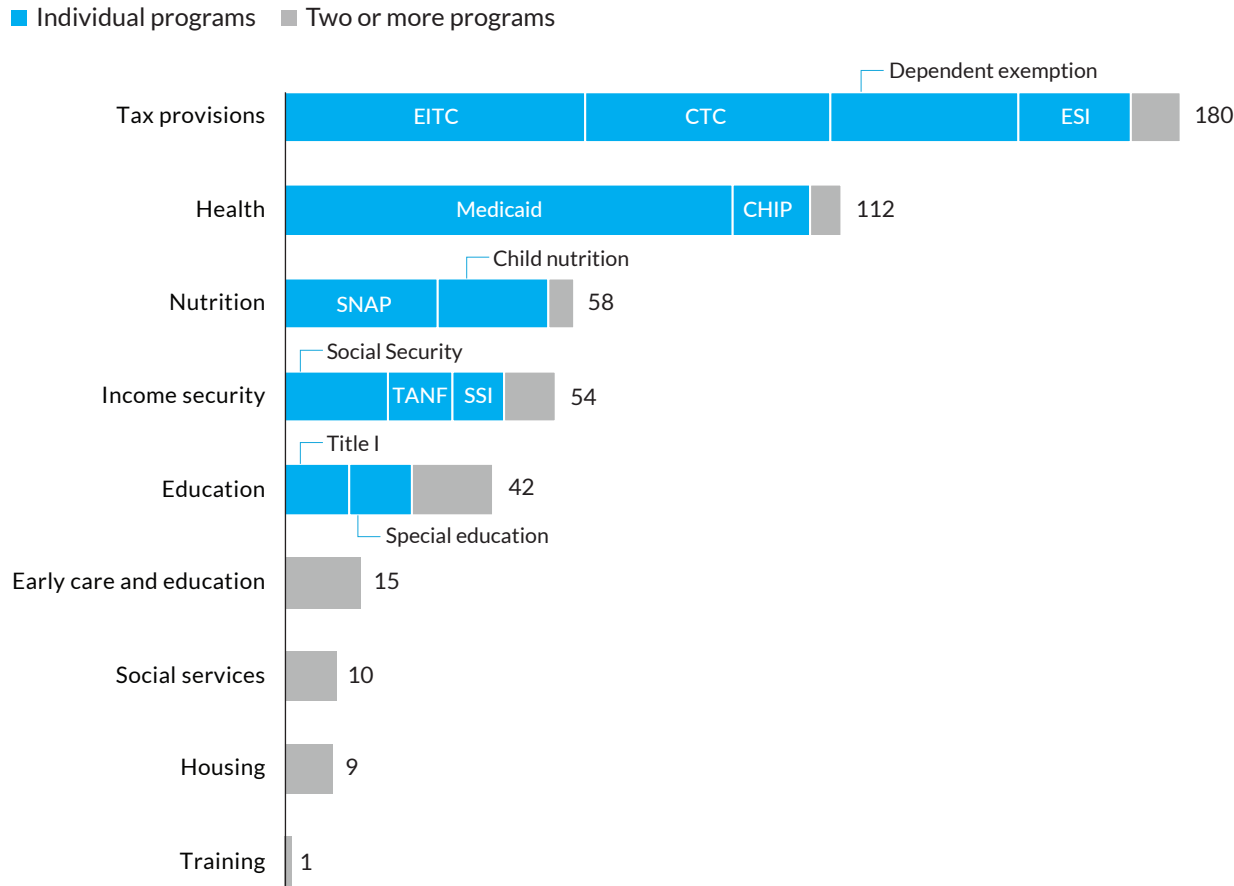
Sixty-one percent of expenditures on children in 2017 were directed toward tax provisions and health; less than 10 percent was spent on early education and care, social services, housing, and training.

- **Tax provisions** benefiting children, counted together, far exceed any other major budget category of spending. Expenditures on tax provisions totaled \$180 billion, or 37 percent of total 2017 expenditures on children. The largest child-related tax provisions are the earned income tax credit (EITC) (\$60 billion), the child tax credit (\$49 billion), the dependent exemption (\$38 billion), and the exclusion from income taxation of employer-sponsored health insurance (ESI) for dependent children (\$23 billion). Most of the EITC's expenditures and two-fifths of the child tax credit's expenditures are in the form of tax refunds (cash outlays) to families; the rest are provided as reductions in tax liabilities to those otherwise owing individual income tax.
- **Health** was the second-largest category (\$112 billion), representing 23 percent of total expenditures on children. Medicaid is both the largest source of health spending on children and the largest program in any category of spending on children. We estimate that \$90 billion, or about one-fourth of all Medicaid funds, was spent on children in 2017. This estimate includes spending on people under the age of 19 with disabilities. We estimate that an additional \$15 billion was spent on the Children's Health Insurance Program (CHIP).
- Other large categories of spending included the following:
 - » **Nutrition** (\$58 billion), including \$31 billion on the children's share of **SNAP** benefits and \$22 billion on child nutrition programs such as the school lunch and breakfast programs.
 - » **Income security** (\$54 billion), including \$21 billion on **Social Security** survivors' and dependents' benefits directed toward people younger than 18, \$13 billion on the children's share of Temporary Assistance for Needy Families (**TANF**), and \$11 billion on Supplemental Security Income (**SSI**) spending on children with disabilities.
 - » **Education** (\$42 billion), including \$16 billion on **Title I** funding and \$13 billion on **special education** and related services as covered by the Individuals with Disabilities Education Act.
- Other categories are much smaller: **early education and care**, which includes Head Start and child care assistance, preschool development, special education, and other broad education programs (\$15 billion); child welfare and other **social services** (\$10 billion); **housing** assistance benefiting children (\$9 billion); and the youth components of job **training** programs (\$1 billion).

FIGURE 2

Federal Expenditures on Children by Category and Major Programs, 2017

Billions of 2017 dollars



Tax provisions are the largest category of expenditures on children.

Source: Authors' estimates based primarily on Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019* (Washington, DC: US Government Printing Office, 2018). For more source information, see the appendix.

Notes: Programs spending less than \$10 billion are not shown separately but are included in the totals by category. CHIP = Children's Health Insurance Program; CTC = child tax credit; EITC = earned income tax credit; ESI = employer-sponsored health insurance; SNAP = Supplemental Nutrition Assistance Program; SSI = Supplemental Security Income; TANF = Temporary Assistance for Needy Families.

How did federal expenditures on children change between 2016 and 2017?

Spending on children slightly declined between 2016 and 2017.

Some of the more than 80 programs and tax provisions included in our analysis have increased, but others have decreased. The net effect is a decrease of \$3.4 billion (less than 1 percent).

Estimates by program are presented for all spending and tax programs with expenditures of \$1 billion or more; expenditures on smaller programs are not shown separately but are included in the 10 budget category subtotals shown in table 1.

- **Nutrition** spending fell more than \$2 billion (3.4 percent), with nearly all of the decline occurring in SNAP. SNAP caseloads and expenditures have dropped from their peak levels during the recession.
 - **Income security** spending also fell \$2 billion (3.5 percent). The change in income security spending reflects the arbitrary fact that there were fewer scheduled monthly payments of Social Security and SSI in 2017 than in 2016 because of how the payments fell in the calendar. Smaller spending decreases occurred in **social services** and **training**.
 - The largest increase in spending on children was in **health** programs, which collectively grew \$1.5 billion (1.4 percent) from 2016 to 2017, driven entirely by increases in CHIP.
- Spending also increased in **education** (\$515 million; 1.3 percent), **early education and care** (\$414 million; 2.9 percent), and **housing** (\$222 million; 2.4 percent). Among education programs, the greatest increase in spending was in Education for the Disadvantaged (Title I), which grew by more than \$350 million (2 percent). The growth in early education and care spending was driven by a more than \$300 million increase in the Child Care and Development Block Grant (a nearly 6 percent increase). Section 8 low-income housing assistance also grew by \$300 million (4 percent) while spending on smaller housing programs fell.
- Support for children through **refundable tax credits** declined \$2.9 billion (3.8 percent) as a result of spending decreases on each of the major refundable tax credits. Spending on **tax reductions**, on the other hand, increased \$1.3 billion (1.2 percent), driven by an increase in the children's share of the exclusion from income taxation of employer-sponsored health insurance.

TABLE 1

Federal Expenditures by Program in 2017 and Change in Expenditures from 2016

Billions of 2017 dollars

	2017	Change from 2016		2017	Change from 2016
1. Health	111.9	1.5	5. Early Education and Care	14.9	0.4
Medicaid	89.9	*	Head Start (including Early Head Start)	8.9	0.1
CHIP	15.4	1.6	Child Care and Development Fund	5.7	0.3
Vaccines for children	4.4	*	Other early education and care	0.3	*
Other health	2.1	*	6. Social Services	10.1	-0.3
2. Nutrition	58.0	-2.1	Foster care	4.9	*
SNAP (formerly Food Stamps)	30.6	-1.8	Adoption assistance	2.5	-0.1
Child nutrition	22.3	0.1	Other social services	2.7	-0.2
Special Supplemental food (WIC)	5.0	-0.3	7. Housing	9.5	0.2
3. Income Security	54.3	-2.0	Section 8 low-income housing assistance	7.7	0.3
Social Security	20.8	-0.4	Low-rent public housing	1.0	*
Temporary Assistance for Needy Families	12.8	0.1	Other housing	0.7	*
Supplemental Security Income	10.5	-1.4	8. Training	1.2	-0.1
Veterans benefits	6.8	-0.2	9. Refundable Portions of Tax Credits	74.0	-2.9
Child support enforcement	4.1	-0.1	Earned income tax credit	53.1	-1.6
Other income security	-0.6	*	Child tax credit	19.4	-1.1
4. Education	41.6	0.5	Premium tax credit	0.6	-0.2
Education for the Disadvantaged (Title I, Part A)	16.2	0.4	Other refundable tax credits	0.8	*
Special education/IDEA	12.7	-0.1	10. Tax Reductions	106.2	1.3
School improvement	4.4	*	Dependent exemption	37.8	0.2
Indian education	1.2	*	Exclusion for employer-sponsored health insurance	22.9	0.9
Innovation and improvement	1.3	*	Child tax credit (nonrefundable portion)	29.9	-0.3
Impact Aid	1.5	0.2	Earned income tax credit (nonrefundable portion)	7.0	*
Dependents' schools abroad	1.2	*	Dependent care credit	3.3	*
Other education	3.1	0.3	Other tax reductions	5.3	0.4
			TOTAL EXPENDITURES ON CHILDREN	481.5	-3.4
			OUTLAYS SUBTOTAL (1-9)	375.3	-4.6

Source: Authors' estimates based primarily on Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019* (Washington, DC: US Government Printing Office, 2018) and past years. For more source information, see the appendix.

Notes: Because this analysis shows outlays, rather than appropriated or authorized levels, and because the dollars are adjusted for inflation, these estimates may differ from other published estimates. Individual programs are shown only when expenditures on children are \$1 billion or greater in 2017 or 2018. Numbers may not sum to totals because of rounding.

* Less than \$50 million.

Other health covers immunizations, the Maternal and Child Health block grant, children's graduate medical education, lead hazard reduction, children's mental health services, birth defects/developmental disabilities, Healthy Start, home visiting, and school-based health care.

Child nutrition includes the National School Lunch Program, the School Breakfast Program, the Child and Adult Care Food Program, the Summer Food Service Program, and Special Milk.

Other income security includes Railroad Retirement and the savings associated with the federal share of child support collections.

Other education includes English language acquisition; DOD domestic schools; the Institute of Education Sciences; safe schools and citizenship education; Junior ROTC; and career, technical, and adult education (formerly vocational and adult education).

Other early education and care includes Preschool Development Grants.

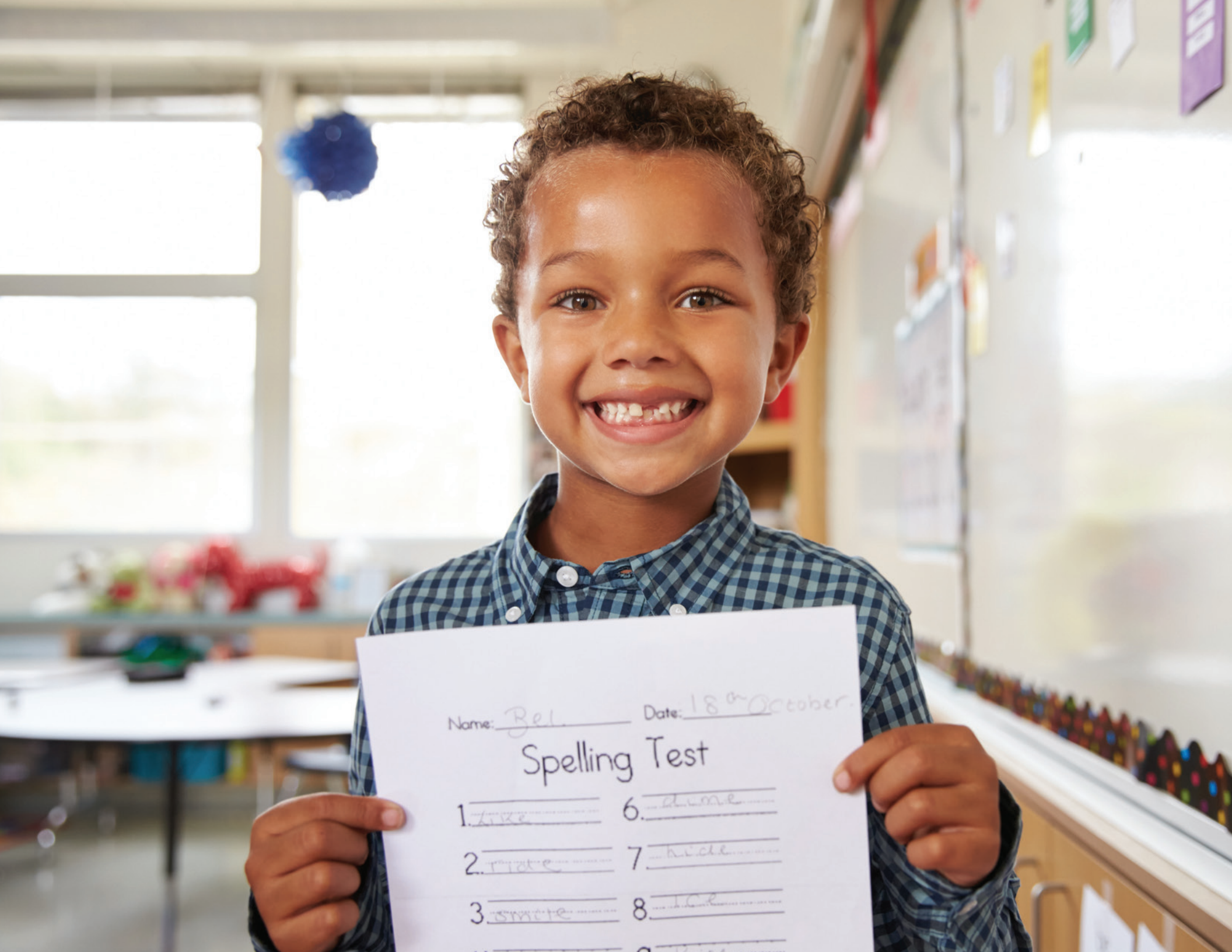
Other social services includes the Social Services Block Grant, the Community Services Block Grant, child welfare services and training, Safe and Stable Families, juvenile justice, guardianship, independent living, missing children, children's research and technical assistance, PREP and abstinence education, and certain child and family services programs.

Other housing includes rental housing assistance and low-income home energy assistance.

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

Other refundable tax credits includes outlays from Qualified Zone Academy Bonds and Qualified School Construction Bonds.

Other tax reductions includes exclusion of employer-provided child care, the 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' and survivors' benefits, exclusion for public assistance benefits, exclusion for veterans death benefits and disability compensation, the nonrefundable portions of Qualified Zone Academy Bonds and Qualified School Construction Bonds, and the premium tax credit.



Name: Bel Date: 18th October.

Spelling Test

- | | |
|-----------------|----------------|
| 1. <u>live</u> | 6. <u>dime</u> |
| 2. <u>ride</u> | 7. <u>hide</u> |
| 3. <u>smile</u> | 8. <u>ice</u> |

How has the Budget Control Act of 2011 affected spending on children?

While the Budget Control Act (BCA) has contributed to declines in certain areas of children's spending (e.g., education), it has had minimal impact on total expenditures on children because of its exemptions. Designed to curb total federal spending, the Budget Control Act (BCA) primarily constrains discretionary spending, with spending caps on both defense and nondefense spending. Tax credits and most mandatory programs are largely exempt from the BCA's spending restrictions. (See the glossary for definitions of "mandatory" and "discretionary" spending.)

A majority of children's outlays—80 percent in 2017—are exempt from the BCA.

- **Mandatory health spending exempt from BCA** (including Medicaid and CHIP) grew considerably over most of the past decade.
- **Other exempt spending**, including refundable tax credits, Social Security, and many mandatory programs serving low-income people (e.g., SNAP, TANF) grew between 2008 and 2011. Declines in such spending since then stem from recovery from the recession, not the BCA.

The roughly 20 percent of children's spending that is subject to BCA caps or sequestration has declined in total over the past decade. This decline, which was temporarily offset by spending increases under ARRA, precedes the Budget Control Act and is partly driven by pressures on domestic spending subject to appropriations.

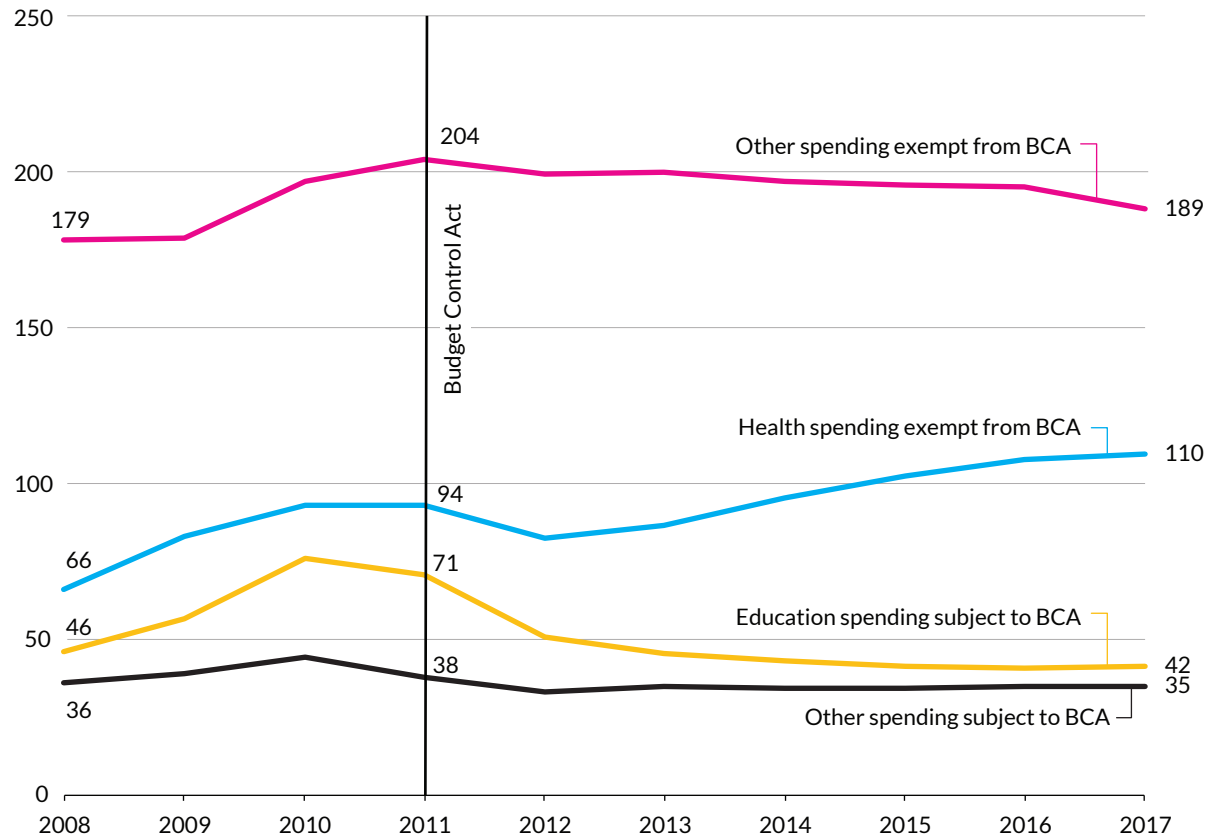
- **Federal spending on education** was 9 percent lower in 2017 than in 2008.
- **Other spending subject to the BCA** has not declined as sharply; it was 3 percent lower in 2017 than in 2008. Popular support for programs such as Women, Infants, and Children; Head Start; and child care assistance may have helped maintain spending. This category is largely discretionary spending, but it includes three mandatory programs that are not exempt from the automatic spending reductions required under the BCA: the Social Services Block Grant, the Promoting Safe and Stable Families program, and the Maternal, Infant and Early Childhood Home Visiting program.

The Bipartisan Budget Act of 2018 raised the spending caps for 2018 and 2019, which should minimize their impact in those years. Barring congressional action, the caps are scheduled to revert to lower levels in 2020 and 2021 before expiring completely.

FIGURE 3

Federal Spending on Children and the Impact of the Budget Control Act, 2008–17

Billions of 2017 dollars



A majority of children's outlays are exempt from the BCA.

Source: Authors' estimates based primarily on Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019* (Washington, DC: US Government Printing Office, 2018) and past years. For more source information, see the appendix.

How much do state and local governments contribute to spending on children?

State and local spending on children exceeds federal spending, providing 65 percent of total public spending in 2015 (the most recent year for which we have complete data), though contribution levels vary by spending category.⁶

- During the recession, state and local governments cut funding for education and other children's programs. Over the same period, the federal government increased spending as SNAP, Medicaid, and other federal entitlement programs adjusted automatically to meet increased need and as ARRA provided funds to support state and local governments, help families facing unemployment, and stimulate the economy. The federal increases were large enough to boost **total spending per child** during the recession, when needs and poverty rates rose.
- In 2012, as the recession ended, per child federal funding dropped sharply and was only partly offset by a small increase in state and local spending. Since then, per child state and local spending has risen gradually; 2015 was the first year that spending levels exceeded those in 2008 (2 percent higher). In contrast, over this same period of time, real per capita national income increased 8 percent.

- State and local spending is dominated by spending on public education, the largest form of public investment in children when looking across federal, state, and local spending. The federal government contributes only 7 cents of each education dollar.
- State and local governments also contribute significantly to **health** spending on children, though not as much as the federal government.
- States and localities make important contributions to income security, tax credits, child care, foster care, and social services, but these investments are small relative to federal spending. They spend little on nutrition, housing, or training.

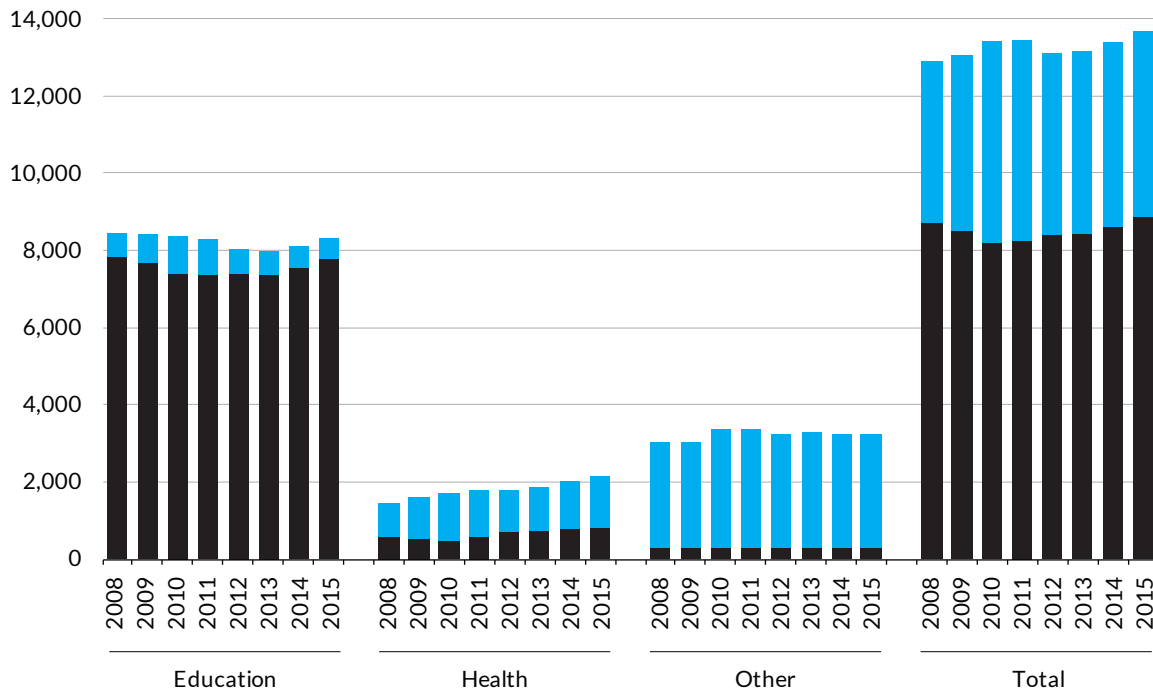
⁶ To improve the comparability of our federal estimates to our estimates of state and local spending, we exclude the value of federal tax reductions and the dependent exemption. That is, the federal estimates are restricted to outlays, including the refundable portions of the EITC and child tax credit. The state and local estimates include outlays for one tax provision: the state earned income tax credit for states that have such a credit.

FIGURE 4

Federal and State and Local Spending per Child on Education, Health, and Other Categories, 2008–15

2017 dollars

■ State and local ■ Federal



State and local governments contribute 65 percent of total public spending on children.

Source: Authors’ estimates based on Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2017* (Washington, DC: US Government Printing Office, 2016) and past years as well as various other sources. For more source information, see the appendix.

Note: These estimates do not include tax reductions.

BROAD TRENDS IN FEDERAL SPENDING

This section analyzes broad trends in spending on children—both past and future—in the context of the entire federal budget. We primarily focus on budget outlays, setting aside tax reductions. The first five figures address the following questions:

- What share of the federal budget is spent on children?
- How is the children's share of the federal budget changing over time?
- How large is the federal budget and spending on children relative to the economy?
- How does federal spending on children compare with interest payments on the debt?
- How much of the projected growth in the federal budget is expected to go to children?

Two later figures compare children under 19 to people 65 and older, the ages when most people are outside the working-age population and thus more likely to rely on public or private support. Both figures address the same question:

- How does spending on children compare with spending on the elderly?

For future trends, our estimates rely heavily on the Congressional Budget Office's baseline projections, supplemented by other sources, and our own estimates of the shares of individual programs allocated to children. As noted earlier, the baseline projections used in this report incorporate the broad parameters of the Bipartisan Budget Act of 2018 and the Consolidated Appropriations Act of 2018 (see appendix).



What share of the federal budget is spent on children?

In 2017, 9 percent of the federal budget (or \$375 billion of \$3.9 trillion in outlays) was spent on children.

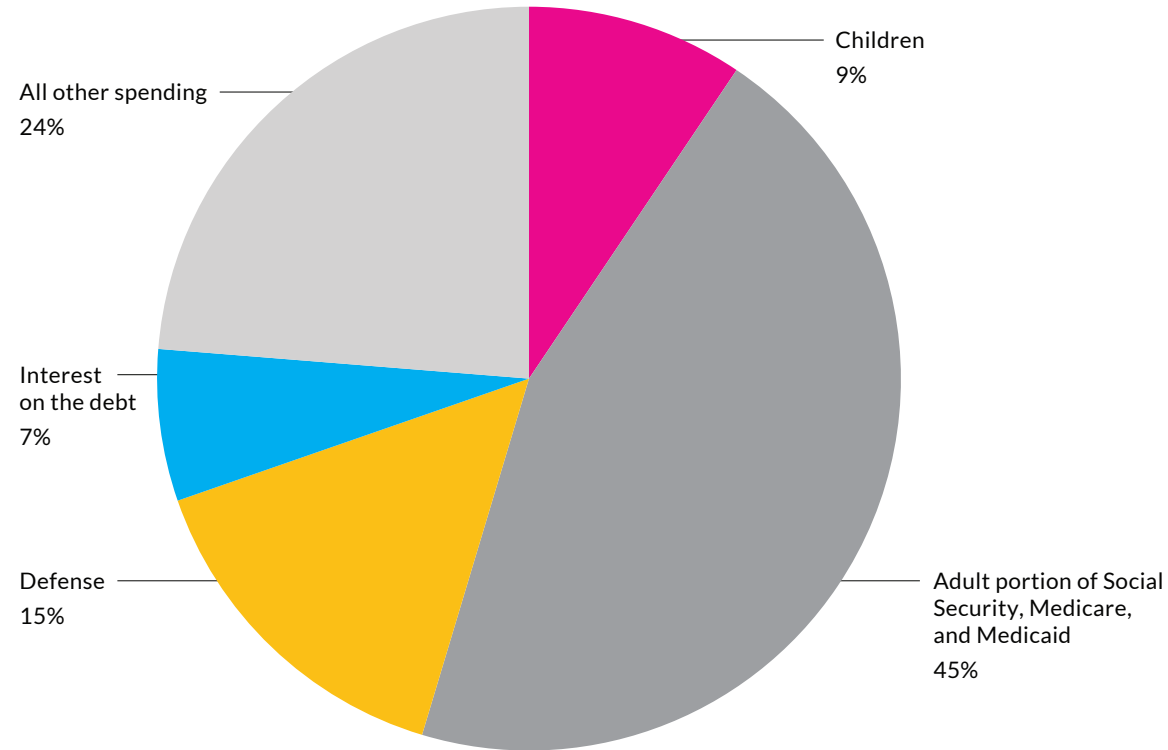
- A much larger share of the budget (45 percent) was spent on retirement and health benefits for adults through **Social Security, Medicare, and Medicaid**. Most of these adults are elderly or disabled, but Medicaid also provides health insurance to several other groups of adults, including pregnant women, parents, and in some states, childless adults. (The Social Security and Medicaid estimates here exclude spending on children to avoid double counting.)
- The remaining shares of the budget include 15 percent on **defense**, 7 percent on **interest payments on the debt**, and 24 percent on a residual category that includes **all other federal spending priorities**, ranging from agriculture subsidies and highway construction to unemployment compensation, veterans benefits, higher education, and environmental protection.

- **Child-related tax reductions** (totaling \$106 billion in 2017) represent approximately 7 percent of the \$1.5 trillion in individual and corporate tax reductions identified by the Office of Management and Budget.⁷ This share has been steadily declining over the past decade (e.g., it was 9 percent in 2008, 8 percent in 2012, and 7 percent in 2016).

⁷ To calculate the total tax-expenditure budget, we sum Office of Management and Budget estimates of tax provisions for individuals and corporations, although such provisions are not strictly additive because of interaction effects. To this we add the dependent exemption, which the Office of Management and Budget views as part of the overall tax structure rather than a special tax provision resulting in a tax expenditure. We include the dependent exemption in our analyses of expenditures on children.

FIGURE 5

Share of Federal Budget Outlays Spent on Children and Other Items, 2017



9 percent of the federal budget was spent on children.

Source: Authors' estimates based primarily on Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019* (Washington, DC: US Government Printing Office, 2018). For more source information, see the appendix.

Note: Numbers may not sum to totals because of rounding.

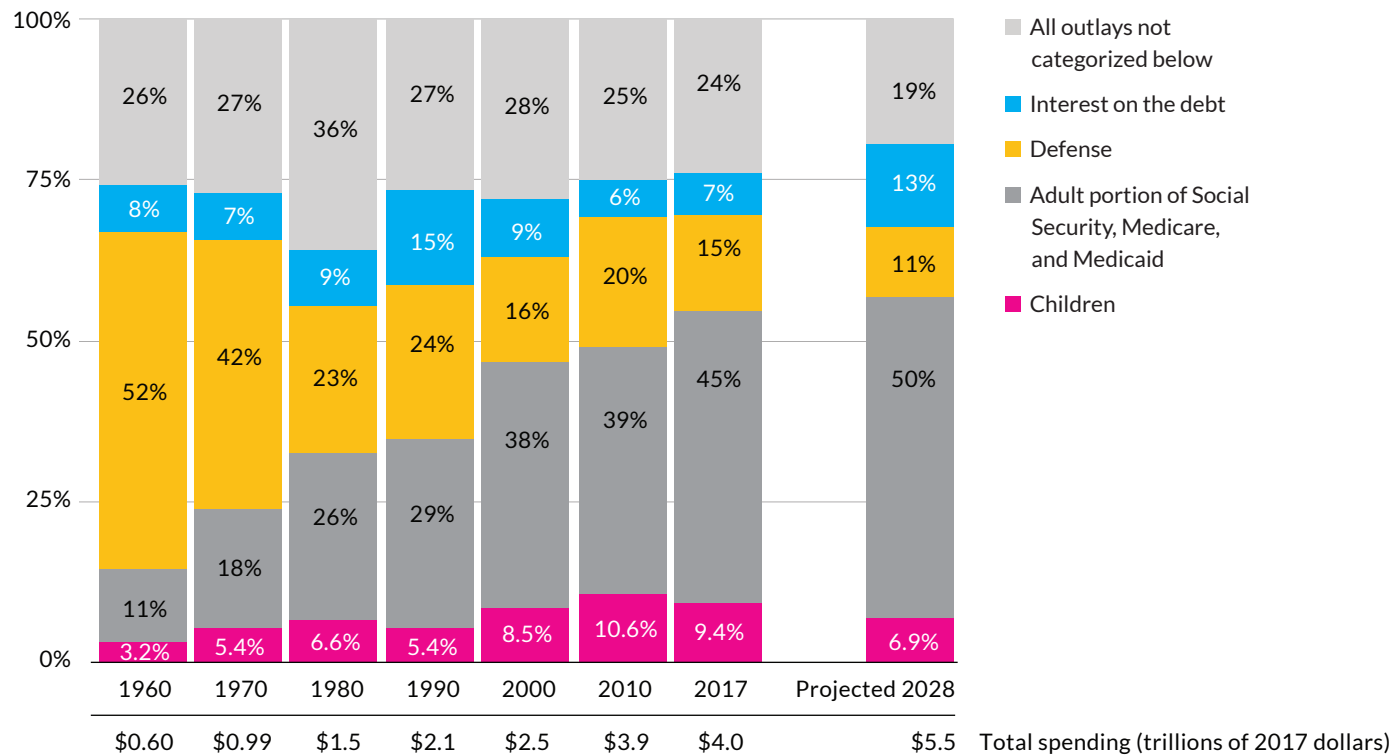
How is the children's share of the federal budget changing over time?

The share of the federal budget allocated to children grew, albeit unevenly, between 1960 and 2010. It has fallen since then, and budget projections suggest that it will decline further.

- In 1960, only 3.2 percent of federal outlays were spent on **children**. The children's share of the budget grew in fits and starts, reaching a peak of 10.6 percent in 2010. It fell to 9.4 percent in 2017, the lowest it has been since 2007.
- The children's share is projected to decline by nearly a quarter, to 6.9 percent, by 2028. At the same time, the share of the population under age 19 is estimated to contract slightly, from 24 percent to 23 percent.
- **Social Security, Medicare, and Medicaid** spending on adults has steadily increased as a share of total federal spending and is expected to continue to do so. By 2028, 50 percent of the federal budget will be spent on the adult portions of Social Security, Medicare, and Medicaid. This growth stems from multiple factors, including projected growth in real health and Social Security benefits per person under current law, additional years of benefits as people live longer, and the movement of baby boomers into the retiree population. From 2017 to 2028, the share of the population ages 65 and older is expected to increase from 16 to 20 percent.
- The share of the budget spent on **defense** fell dramatically between 1960 and 2000, essentially financing a substantial expansion of domestic programs without any significant increase in average tax rates. Under the BCA's caps, defense spending is projected to shrink further, from 15 percent of federal outlays in 2017 to a post-World War II low of 11 percent in 2028.
- **Interest payments** on the debt have fluctuated over the past half-century. They are projected to grow as a share of the budget, from 7 percent in 2017 to 13 percent by 2028, reflecting a higher national debt and projected rising interest rates.
- Spending on **all other governmental functions** is projected to shrink to 19 percent of the budget by 2028.

FIGURE 6

Share of Federal Budget Outlays Spent on Children and Other Items, Selected Years, 1960–2028



The children’s share of the budget is projected to drop from 9.4 percent to 6.9 percent over the next decade.

Source: Authors’ estimates based primarily on Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028* (Washington, DC: Congressional Budget Office, 2018), and Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019* (Washington, DC: US Government Printing Office, 2018) and past years. For more source information, see the appendix.

Note: Numbers may not sum to totals because of rounding.

How large is the federal budget and spending on children relative to the economy?

Federal spending represents about one-fifth of the total economy; federal spending on children represents 2 percent of GDP.

- Between 1960 and 2017, **federal outlays** grew sharply in real terms (from \$598 billion to \$3.9 trillion) but only modestly as a share of the economy (from 17 to 21 percent of GDP). Total outlays are expected to grow steadily over the next decade (rising to \$5.6 trillion and reaching 23.6 percent of GDP in 2028).
- Spending on **children** grew from a very small base of about 0.6 percent of GDP in 1960 to 2.0 percent in 2017, down from a peak of 2.5 percent in 2010.⁸ Spending on children is projected to decline further, falling to 1.6 percent of GDP in 2028 under current-law estimates. The decline observed to date is generally consistent with estimates in earlier *Kids' Share* reports, which highlighted the budgetary squeeze affecting future spending on children.⁹
- Spending on **Social Security, Medicare, and Medicaid** has steadily increased over the past half-century. Excluding spending on children (to avoid double counting), spending grew from 2.0 percent of GDP in 1960 to 9.4 percent in 2017. Spending on these health and retirement programs is projected to reach 11.8 percent of GDP over the next 10 years.

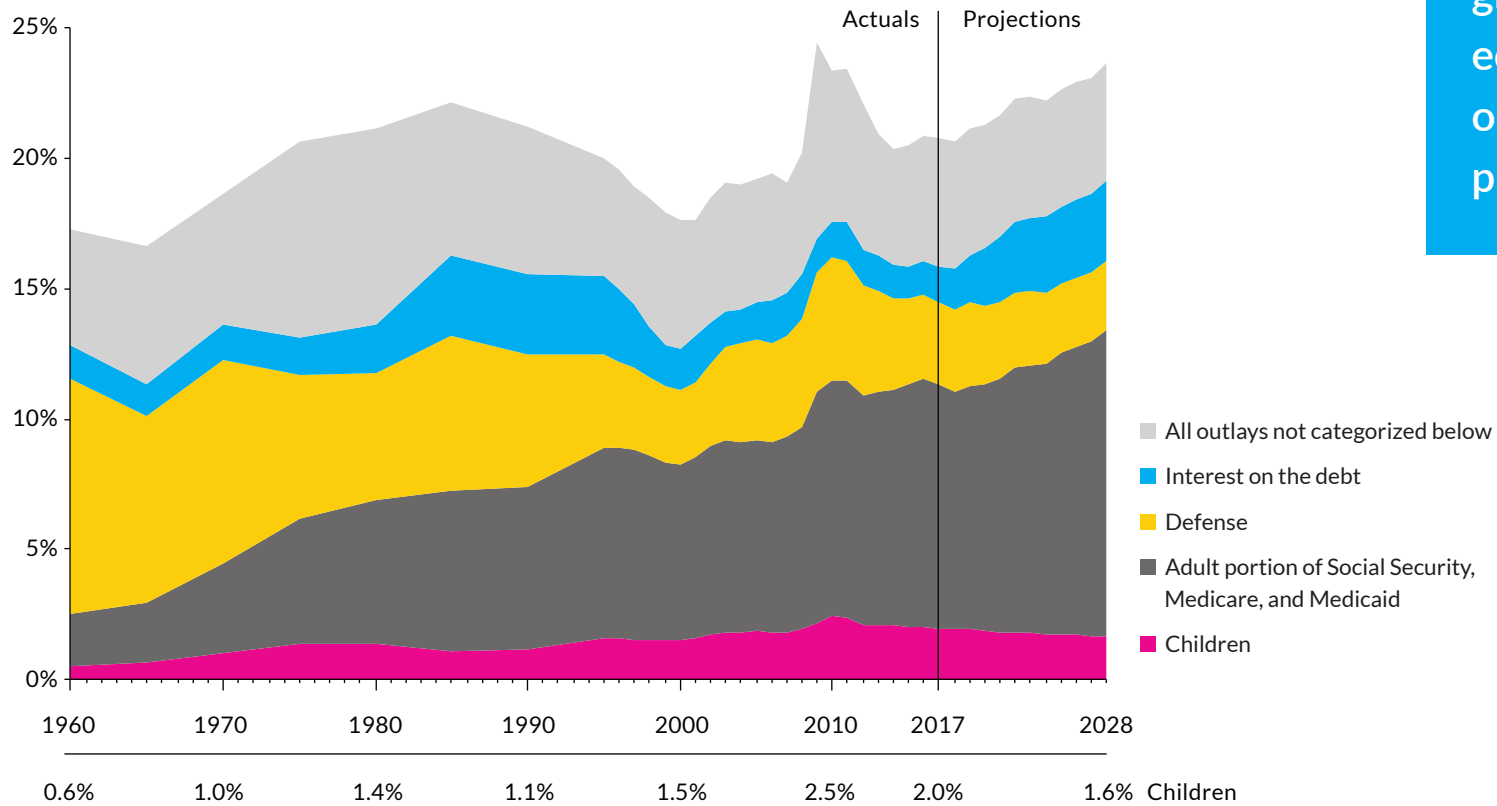
- Spending on **defense** fell substantially, from 9.0 percent of GDP in 1960 to 2.9 percent in 2000. It has risen somewhat in the past 17 years, reaching 3.1 percent of GDP in 2017, but is projected to decline further to 2.6 percent in 2028 under the statutory spending caps.

⁸ Tax reductions on children are not shown in these budget estimates. Including them would put total expenditures on children at 2.5 percent of GDP in 2017.

⁹ *Kids' Share 2010*, for example, projected that budget outlays on children would decline to 1.9 percent of GDP in 2017, absent changes in current law (Isaacs et al. 2010). Despite numerous legislative changes, some of which increased spending on children, the decline projected in earlier reports is now being observed.

FIGURE 7

Federal Outlays on Children and Other Major Budget Items as a Share of GDP, 1960–2028



Federal spending is projected to grow relative to the economy, but spending on children is projected to fall.

Source: Authors' estimates based primarily on Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028* (Washington, DC: Congressional Budget Office, 2018), and Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019* (Washington, DC: US Government Printing Office, 2018) and past years. For more source information, see the appendix.

Note: Totals shown along the horizontal axis are the share of GDP spent on children in the corresponding year.

How does federal spending on children compare with interest payments on the debt?

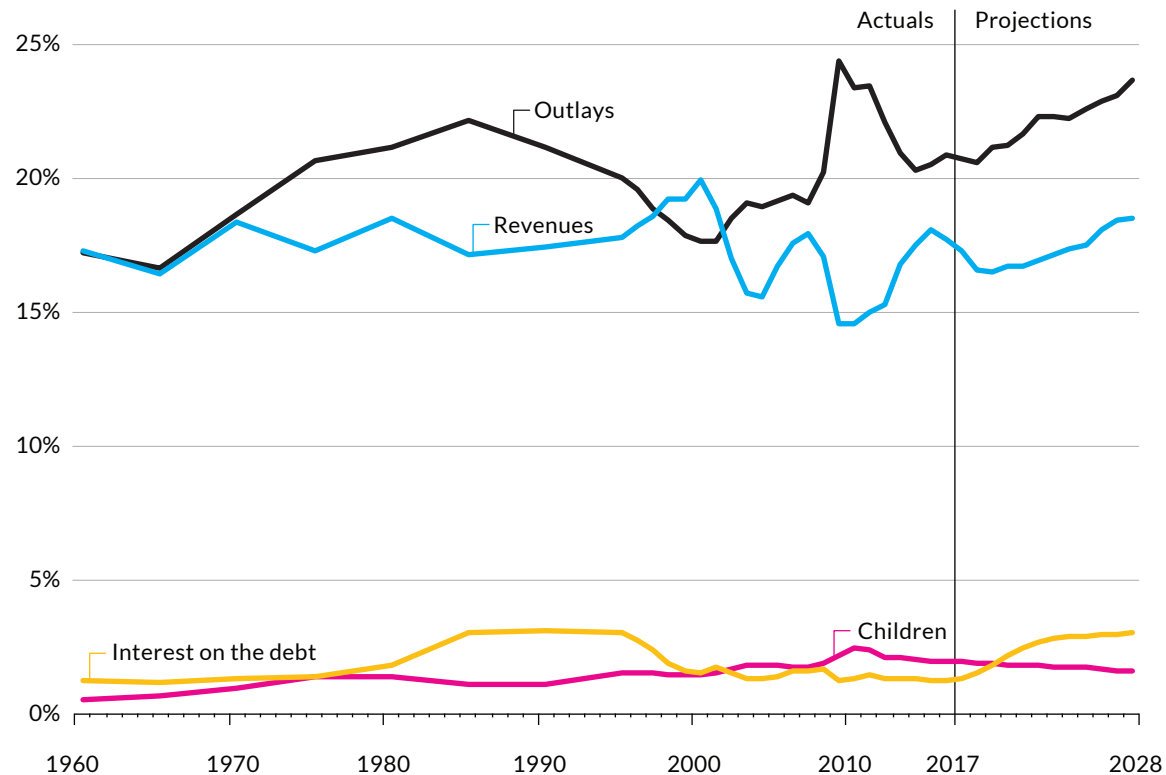
Interest payments on the national debt are projected to exceed federal spending on children by 2020 and to more than double by 2028.

- **Federal outlays** are projected to grow more rapidly than the economy over the next 10 years, according to current-law projections by the Congressional Budget Office (CBO). **Revenues** are also projected to increase while remaining well below outlays every year between 2017 and 2027, as they have since 2001.
- As spending exceeds revenues year after year, the federal debt is expected to rise to its highest level relative to the economy since just after World War II. With an increasingly higher national debt and a projected increase in interest rates, **interest payments on the debt** are projected to more than double (both as a percentage of GDP and in dollars).
- In sharp contrast to the growth in total federal spending, **spending on children** is projected to fall relative to the economy. Under current policies, spending on interest payments on the debt is projected to exceed spending on children from 2020 onward.

As CBO notes, current-law spending projections assume that strict spending caps for defense and nondefense discretionary programs, which were raised in 2018 and 2019 under the Bipartisan Budget Act of 2018, will revert to scheduled levels in 2020. Moreover, current-law revenue projections assume that certain provisions of the Tax Cuts and Jobs Act of 2017 expire in 2026, resulting in significant increases in individual income taxes in 2026 (CBO 2018). If Congress were to amend current law to remove caps on discretionary spending and extend many expiring revenue provisions, the annual deficit, national debt, and interest payment estimates would all be even higher. Under this alternate scenario, without spending caps, projected spending on children would not fall as rapidly but still would fall relative to GDP and the budget as a whole.

FIGURE 8

Federal Outlays, Revenues, Spending on Children, and Interest Payments as a Share of GDP, 1960–2028



The federal government is projected to spend more on interest payments on the debt than on children in the near future.

Source: Authors' estimates based primarily on Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028* (Washington, DC: Congressional Budget Office, 2018), and Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019* (Washington, DC: US Government Printing Office, 2018) and past years. For more source information, see the appendix.

Note: Spending on children and payments on the debt are included as components of total outlays and also displayed separately.

How much of the projected growth in the federal budget is expected to go to children?

Children's programs are projected to receive just 1 cent of every dollar of the projected increase in federal spending over the next decade, compared to 61 cents for Social Security, Medicare, and Medicaid and 29 cents for interest on the debt.

- Federal spending is projected to increase by \$1.6 trillion over the next 10 years, reaching \$5.6 trillion in 2028.
- Together, **Social Security, Medicare, Medicaid**, and interest on the debt garner almost all (90 percent) of the expected growth in spending over the next decade. This illustrates how much past policy decisions are driving our future spending. As noted earlier, growth in Social Security, Medicare, and Medicaid is driven by an increase in the number of elderly beneficiaries and real benefits per person. In the absence of legislative action to restrain this growth in benefits or increase revenues, as these programs continue to grow, so will the national debt and interest payments on the debt.
- With so much built-in growth in these spending programs under current law and limited revenues, spending on other priorities—including defense, children, and all other governmental spending—is under severe budgetary pressures.

- Spending on **children's programs** is projected to increase by an estimated \$14 billion, or one cent of every dollar of the projected increase in federal outlays. Only growth in health care spending pushes children into positive territory; nonhealth spending on children actually decreases.
- Spending on **defense** and **all other** functions is similarly projected to increase very little.

These budget projections assume that all nondefense discretionary spending programs are affected equally by the BCA spending caps. Also, these projections show where current law trends lead, absent changes in policy. Laws and policies do not stay constant. Still, the health and retirement programs that drive most long-term spending are slow to change because their growth is built into the law and the public's expectations.

TABLE 2

Share of Projected Growth in Federal Outlays from 2017 to 2028 Going to Children and Other Major Budget Items

Billions of 2017 dollars except where noted

Major budget items	2017	2028 (projected)	Growth, 2017–28	Share of growth
Adult portion of Social Security, Medicare, and Medicaid	1,800	2,794	994	61%
Interest on the debt	263	728	465	29%
Children	375	389	14	1%
Defense	599	618	20	1%
All other outlays	945	1,078	133	8%
Total federal outlays	3,982	5,608	1,627	100%

Source: Authors' estimates based primarily on Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028* (Washington, DC: Congressional Budget Office, 2018), and Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019* (Washington, DC: US Government Printing Office, 2018). For more source information, see the appendix.

Note: Numbers may not sum to totals because of rounding.

Children's programs are projected to receive just one cent of every dollar of the projected growth in spending over the next decade.

How does spending on children compare with spending on the elderly?

Per capita spending is much higher on the elderly than on children, especially at the federal level.

- The federal government spent \$6 per elderly person for every \$1 spent per child in 2015. The ratio in per capita spending drops to 2.2:1 when adding state and local spending, which is heavily slanted toward public schools.¹⁰
- Health care expenses are a significant portion of public expenditures on the elderly. Yet even when excluding health spending, per capita spending on the elderly remains considerably higher than per capita spending on children (data not shown).
- Federal spending on the elderly between 1960 and 2017 increased by about \$25,000 per elderly person, from about \$4,000 to about \$29,000 (see figure 10). These increases have been driven by the establishment of Medicare and Medicaid and the enactment of the Older Americans Act in 1965; legislated increases in Social Security, Medicare, and Medicaid benefits; real growth in wages (on which initial Social Security benefits are based); the aging of the population because of the declining birth rate; and real increases in health care costs.

- Over this same period, federal spending on children rose by about \$4,500 per capita, from about \$300 to \$4,800.
- Looking forward, we project that spending per child will increase modestly by 2 percent between 2017 and 2028, or about 0.2 percent annually. In comparison, per capita spending on all Americans is projected to increase 31 percent over the same period, or about 2.5 percent annually (data not shown). (Projections of per capita spending on the elderly are not available.)

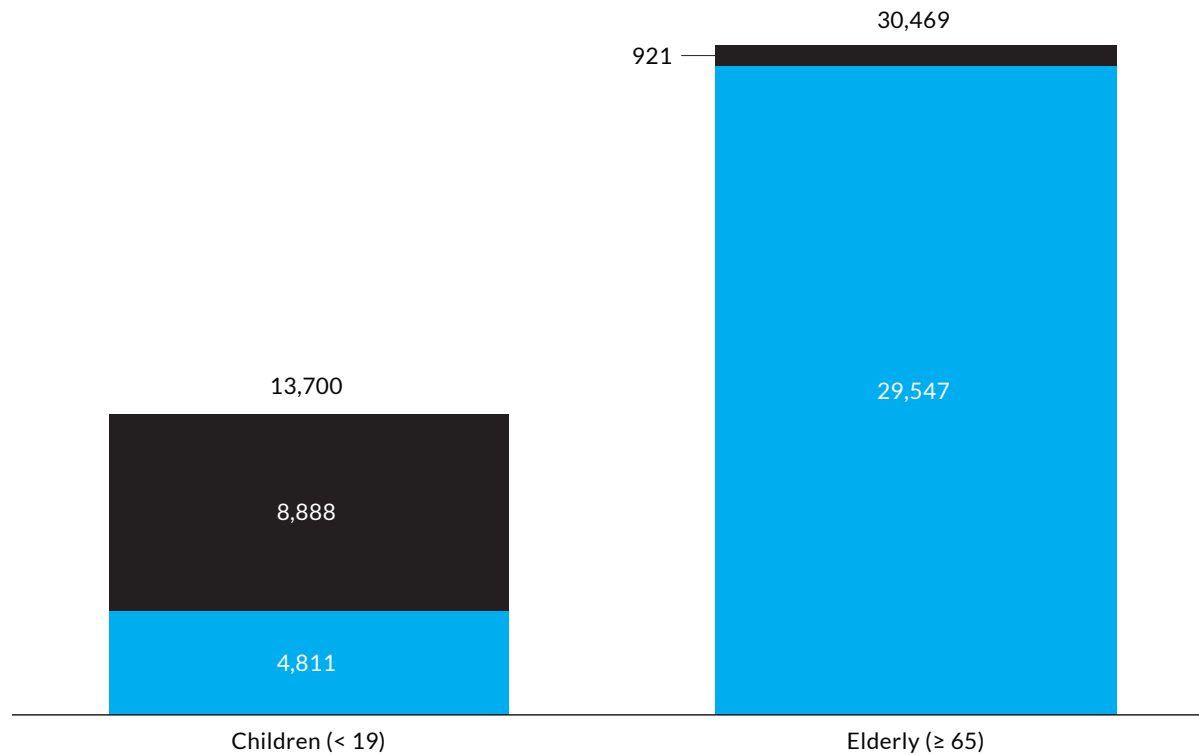
¹⁰ Data in figure 9 are for 2015, the most recent year for state and local data. The federal spending ratio remained 6:1 in 2017.

FIGURE 9

Per Capita Federal and State and Local Spending on Children and the Elderly, 2015

2017 dollars

■ State and local ■ Federal



The federal government spent \$6 per elderly person for every \$1 spent per child.

Source: Authors' estimates based on Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2017* (Washington, DC: US Government Printing Office, 2016) and past years as well as various other sources. For more source information, see the appendix.

Note: Numbers may not sum to totals because of rounding.

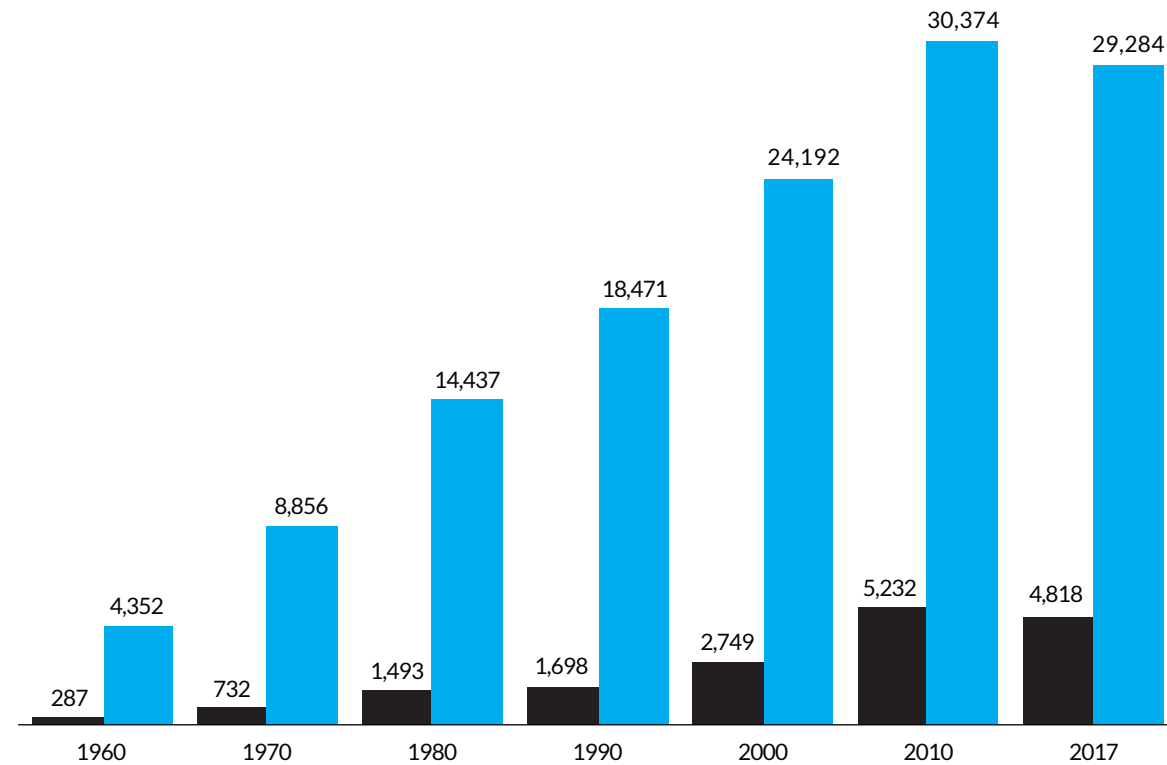
Federal spending on the elderly increased from \$4,000 to \$29,000 per capita between 1960 and 2017.

FIGURE 10

Per Capita Federal Spending on Children and the Elderly, Selected Years, 1960–2017

2017 dollars

■ Children (< 19) ■ Elderly (≥ 65)



Source: Authors' estimates based primarily on Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019* (Washington, DC: US Government Printing Office, 2018) and past years. For more source information, see the appendix.



A CLOSER LOOK AT FEDERAL EXPENDITURES ON CHILDREN

This final section looks closely at trends in federal expenditures on children, including budget outlays and tax reductions. Three figures and one table look at historical trends (1960–2017), addressing four questions:

- How have federal expenditures on children changed since 1960?
- Over time, how has the mix of cash support and in-kind benefits and services for children changed?
- How have different categories of expenditures on children changed over time?
- How targeted are expenditures to children in low-income families, and how has this changed over time?

Three final figures and one table offer a more detailed look at future spending on children, addressing two questions:

- Which types of expenditures on children (e.g., mandatory, discretionary) are projected to decline over time?
- Which categories of expenditures on children (e.g., health, education) are projected to decline over time?

Much of this section examines federal expenditures on children as a share of GDP, showing time trends in the context of an overall growing economy. This measure (share of GDP) takes into account growth in population and overall incomes as well as changes in inflation over the lengthy time periods examined. Spending in inflation-adjusted dollars is provided in tables 3 and 4. As noted earlier, our estimates of future spending on children draw on CBO's baseline projections, supplemented by tax projections from the Urban-Brookings Tax Policy Center and other sources, and our own estimates of the shares of individual programs allocated to children (see appendix).



How have federal expenditures on children changed since 1960?

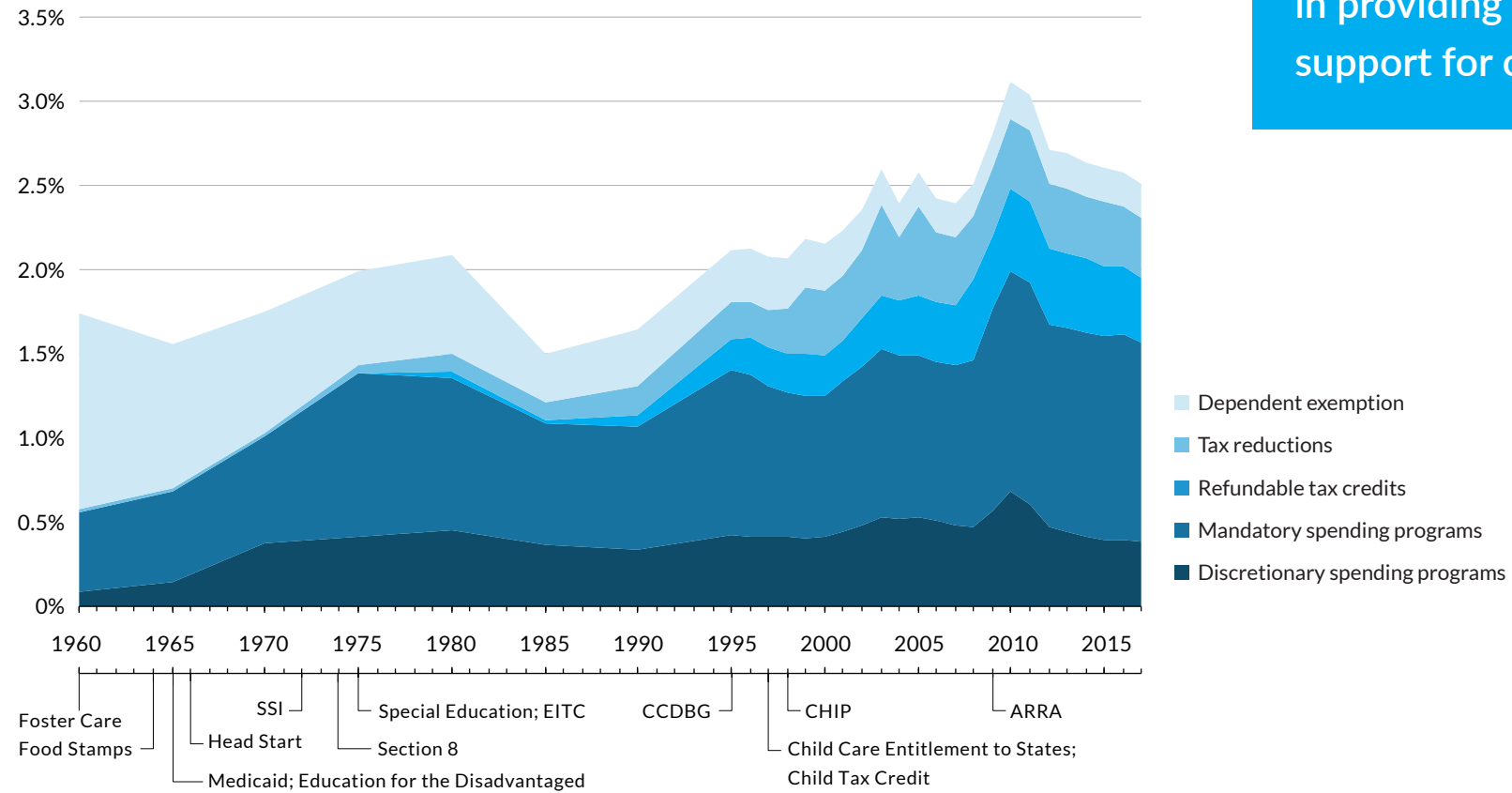
With the notable exception of the dependent exemption, spending on children has generally increased since 1960. Most of the growth has resulted from the introduction of new programs and tax provisions.

- Spending from **discretionary programs** increased in the 1960s and 1970s with the introduction of new programs such as Head Start, Title I, and Section 8 housing assistance. Discretionary spending on children has remained relatively flat as a share of GDP since 1975, except for a temporary increase in 2009–11 under ARRA.
- With the adoption of food stamps, Medicaid, and SSI, spending on entitlements and other **mandatory programs** rose during the 1960s and 1970s. After periods of contraction and expansion, mandatory spending on children has roughly stabilized post-ARRA, with slight increases in children's health spending, particularly in Medicaid and CHIP.
- Since the late 1980s, tax credits have played a growing role in providing federal support for children. Both the EITC and the child tax credit have gone through several legislative expansions over the past decades, resulting in increases in both the **refundable** and the **tax reduction portions of tax credits and other tax provisions (other than the dependent exemption)**.
- The **dependent exemption** has declined in value—dramatically between 1960 and 1985, then gradually before stabilizing after the tax cuts of the early 2000s. In part, this reflects the eroding value of the exemption amount, which was not indexed to inflation until after 1984. The value of the dependent exemption also depends on tax rates; therefore, its value has dropped when tax rates have been reduced. Note that under the Tax Cuts and Jobs Act of 2017, the dependent exemption is eliminated in exchange for a higher child credit, effective in 2018 (see page 6).

FIGURE 11

Components of Federal Expenditures on Children, 1960–2017

Percentage of GDP



Tax credits have played a growing role in providing federal support for children.

Source: Authors' estimates based primarily on Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019* (Washington, DC: US Government Printing Office, 2018) and past years. For more source information, see the appendix.

Notes: ARRA = American Recovery and Reinvestment Act; CCDBG = Child Care and Development Block Grant; CHIP = Children's Health Insurance Program; EITC = earned income tax credit; SSI = Supplemental Security Income.

Over time, how has the mix of cash support and in-kind benefits and services for children changed?

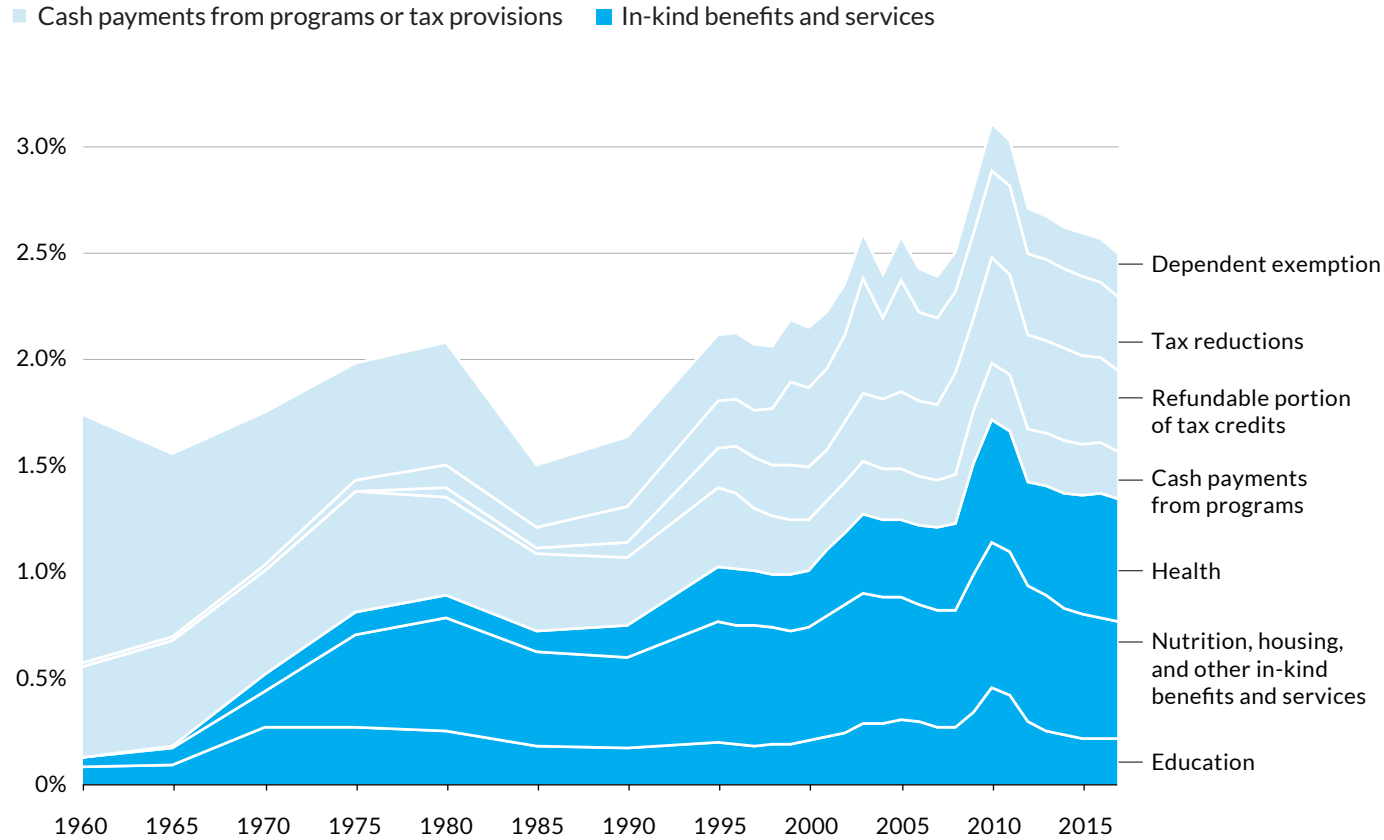
In 1960, cash payments and tax reductions were the main form of support for families with children. Since then, spending on in-kind benefits and services has grown and now accounts for more than half of all expenditures on children.

- In the past, the federal government primarily supported children through **cash payments** to parents on behalf of their children and the **dependent exemption**. Very few benefits were provided through in-kind supports.
 - As new programs providing **education, health, nutrition, and other in-kind benefits and services** were introduced, noncash benefits became an increasingly important share of the supports provided to children. By the mid-1990s, in-kind benefits and services accounted for roughly half of all expenditures on children.
 - This trend accelerated during the Great Recession, as recession-related participation in programs like Medicaid for health services and SNAP for food sharply increased spending on children through in-kind supports. In-kind supports have fallen from their 2010 peak but still accounted for over half of total expenditures on children in 2017.
- Almost all tax code benefits for children come in the form of cash—either as direct payments or tax reductions. The combined value of all tax provisions—**refundable tax credits, tax reductions, and the dependent exemption**—as a share of GDP was lower in 2017 than in 1960 (1.0 percent compared with 1.2 percent).
 - Cash assistance to families through programs such as TANF (formerly Aid to Families with Dependent Children), SSI, and Social Security also was lower as a share of GDP in 2017 than in 1960 (0.22 percent compared with 0.42 percent).

FIGURE 12

Federal Cash and In-Kind Expenditures on Children, 1960–2017

Percentage of GDP



Noncash benefits accounted for more than half of total expenditures on children in 2017.

Source: Authors' estimates based primarily on Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019* (Washington, DC: US Government Printing Office, 2018) and past years. For more source information, see the appendix.

How have individual categories and programs grown over time?

Many of today's major programs did not exist in 1960.

Spending on children has increased since 1960 (in inflation-adjusted dollars) in all categories of spending (health, nutrition, and so on), and many of today's major programs did not exist in 1960.

- In 1960, spending on children was concentrated in **tax reductions** (the dependent exemption), **income security** (Social Security, Aid to Families with Dependent Children,¹¹ and veterans benefits), **education** (Impact Aid), and **nutrition** (child nutrition programs, specifically school lunch). There also were small expenditures on health.
- **Health** spending has risen dramatically, from \$0.2 billion in 1960 to \$112 billion in 2017, driven by the introduction and expansion of Medicaid.
- Federal spending on **education** programs grew to a peak of \$76 billion in 2010 but has since fallen to \$42 billion.
- **Early education and care, social services, and housing** programs spent no money specifically targeted to children (or did not exist) in 1960 but spent \$15 billion, \$10 billion, and \$10 billion, respectively, in 2017.
- Spending on youth **training programs** grew from \$0 in 1960 to \$6 billion in 1980 and has since fallen dramatically to only \$1 billion in 2017.

- The picture is more mixed on tax provisions. The dependent exemption is the only major program with no growth; it provides roughly the same benefit (close to \$40 billion) today as it did nearly 60 years ago. Expenditures on other tax provisions have increased, especially the **refundable portion of tax credits**. These have grown from \$0 in 1960 to \$74 billion in 2017 with the introduction and expansion of the earned income tax credit and child tax credit.

¹¹ In 1997, Temporary Assistance for Needy Families (TANF) replaced Aid to Families with Dependent Children (AFDC).

Table 3 Sources and Notes

Source: Authors' estimates based primarily on Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019* (Washington, DC: US Government Printing Office, 2018) and past years. For more source information, see the appendix.

Notes: See notes to table 1 on page 16 for lists of programs included in **other health, child nutrition**, and other categories. Numbers may not sum to totals because of rounding.

NA = Estimates not available

-- Program did not exist.

TABLE 3

Federal Expenditures on Children by Program, Selected Years, 1960–2017

Billions of 2017 dollars

	1960	1980	2000	2010	2017		1960	1980	2000	2010	2017
1. Health	0.2	7.6	36.8	95.1	111.9	5. Early Education and Care	--	2.1	10.8	15.5	14.9
Medicaid	--	6.9	32.8	80.7	89.9	Head Start (including Early Head Start)	--	2.1	6.2	9.0	8.9
CHIP	--	--	1.7	8.5	15.4	Child Care and Development Fund	--	--	4.6	6.6	5.7
Vaccines for children	--	--	0.7	4.0	4.4	Other early education and care	--	--	--	--	0.3
Other health	0.2	0.8	1.6	1.9	2.1	6. Social Services	--	4.6	10.7	11.2	10.1
2. Nutrition	1.5	22.5	30.9	60.8	58.0	Foster care	--	0.8	6.0	4.9	4.9
SNAP (food stamps)	--	11.7	13.4	36.1	30.6	Adoption assistance	--	--	0.2	2.6	2.5
Child nutrition	1.5	9.1	12.7	18.3	22.3	Other social services	--	3.9	4.5	3.6	2.7
Special Supplemental food (WIC)	--	1.6	4.8	6.4	5.0	7. Housing	--	2.8	8.3	10.7	9.5
3. Income Security	14.6	33.6	46.4	58.0	54.3	Section 8 low-income housing assistance	--	1.4	6.5	8.0	7.7
Social Security	7.0	17.7	18.6	22.3	20.8	Low-rent public housing	--	0.6	1.1	1.3	1.0
Temporary Assistance for Needy Families	4.8	11.0	15.9	17.2	12.8	Other housing	--	0.8	0.8	1.4	0.7
Supplemental Security Income	--	0.9	6.7	11.0	10.5	8. Training	--	6.4	1.5	2.2	1.2
Veterans benefits	2.5	3.5	2.1	3.5	6.8	9. Refundable Portions of Tax Credits	--	3.1	34.5	81.8	74.0
Child support enforcement	--	0.9	4.4	4.9	4.1	Earned income tax credit	--	3.1	33.3	54.8	53.1
Other income security	0.3	-0.4	-1.3	-1.0	-0.6	Child tax credit	--	--	1.1	25.4	19.4
4. Education	3.0	18.7	30.3	76.1	41.6	Premium tax credit	--	--	--	--	0.6
Education for the Disadvantaged (Title I, Part A)	--	8.3	11.8	21.9	16.2	Other refundable tax credits	--	--	--	1.6	0.8
Special education/IDEA	--	2.1	6.9	19.4	12.7	10. Tax Reductions	41.2	50.1	93.1	105.1	106.2
School improvement	--	2.0	3.5	6.0	4.4	Dependent exemption	40.6	42.3	39.7	36.0	37.8
Innovation and improvement	--	--	--	1.1	1.3	Exclusion for employer-sponsored health insurance	NA	4.1	13.7	21.5	22.9
Impact Aid	1.7	1.8	1.2	1.4	1.5	Child tax credit (nonrefundable portion)	--	--	26.8	33.4	29.9
Dependents' schools abroad	0.2	0.9	1.3	1.3	1.2	Earned income tax credit (nonrefundable portion)	--	1.8	5.9	5.3	7.0
Other education	0.1	2.5	3.9	25.1	4.3	Dependent care credit	--	--	3.2	3.8	3.3
						Other tax reductions	0.7	1.9	3.7	5.1	5.3
						TOTAL EXPENDITURES ON CHILDREN	60.5	151.5	303.2	516.4	481.5
						OUTLAYS SUBTOTAL (1–9)	19.3	101.4	210.1	411.3	375.3

How targeted are expenditures to children in low-income families, and how has this changed over time?

The share of federal expenditures for children targeted to low-income families has grown over time, reaching 61 percent in 2017.¹²

- In 1960, most children's expenditures were distributed through Social Security, the **dependent exemption**, and other benefits generally available to all children regardless of income—that is, through **programs and tax provisions without means tests**.
- The focus of children's spending changed as new programs such as food stamps, Medicaid, and SSI were introduced to serve low-income populations. By 1980, nearly half (48 percent) of total federal expenditures on children were on programs and tax provisions that were means tested—that is, available only to families below certain financial means.
- The share of expenditures that is means tested has continued to slowly rise. In 2017, 61 percent of total expenditures on children were made through **means-tested spending programs** (49 percent) and **means-tested tax provisions** (13 percent).¹³
- To estimate the share of expenditures targeted to low-income children (as opposed to the share in means-tested programs) requires additional analyses. Children in low-income families generally receive resources from universal programs, and children from higher-income families sometimes receive services from means-tested programs.

A 2012 report found that 70 percent of 2009 federal expenditures on children served the 42 percent of children in families with incomes below 200 percent of the federal poverty level (Vericker et al. 2012).

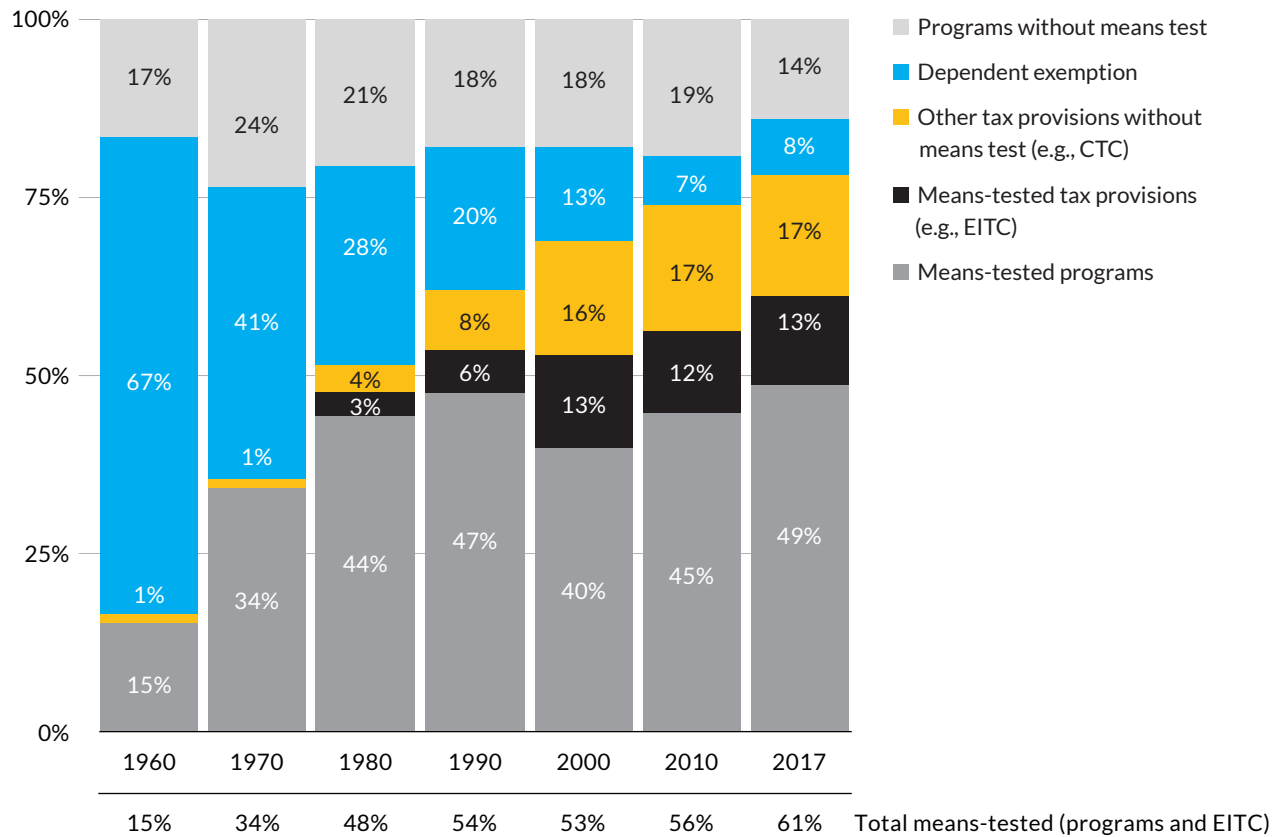
¹²This estimate has been revised downward by 4 percentage points since *Kids' Share 2016* because of a technical correction to our estimates.

¹³The growth in spending on means-tested programs is partly explained by the expansion of Medicaid and CHIP eligibility to higher-income populations. For example, the median upper eligibility limit for children increased from 200 percent of the federal poverty level in 2006 to 255 percent in 2016. Programs with higher income limitations are hard to classify in a dichotomous choice between means tested and universal. Our analysis treats the premium tax credit as means tested and the child tax credit as not means tested; further information on how we classified each program is provided in *Data Appendix to Kids' Share 2018* (Hong et al. 2018).

FIGURE 13

Means Testing of Federal Children’s Programs and Tax Provisions, 1960–2017

Percentage of expenditures on children



In 1960, most children’s programs were generally available to all children regardless of income.

Source: Authors’ estimates based primarily on Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019* (Washington, DC: US Government Printing Office, 2018) and past years. For more source information, see the appendix.

Note: Numbers may not sum to totals because of rounding.

Which types of expenditures (e.g., mandatory, discretionary) on children are projected to decline over the next decade?

All three types of federal expenditures on children—discretionary spending, mandatory spending, and tax provisions—are projected to decline as a share of the economy when comparing 2017 to 2028. Over the next two years, however, expenditures on tax provisions are expected to increase, and discretionary spending falls only slightly relative to GDP because of recently enacted legislation.

- Expenditures on child-related **tax provisions** will increase through 2019, reflecting changes in the Tax Cuts and Jobs Act of 2017—specifically, the replacement of the dependent exemption by an expanded child tax credit. This increase loses its value over time, however, because the child tax credit is not indexed to inflation. Tax-related expenditures on children drop further at the end of the projection period, following the expiration of the enhanced child tax credit in calendar year 2026.
- Spending on **discretionary spending programs**, which compete annually for funding and are constrained by caps set in the BCA, fare relatively well over the next two years. The Bipartisan Budget Act of 2018 increased the spending caps for 2018 and 2019, and the Consolidated Appropriations Act of 2018 made corresponding increases in appropriated levels. Current-law projections assume the caps will be back in place in 2020–21, resulting in downward pressure on discretionary programs.¹⁴

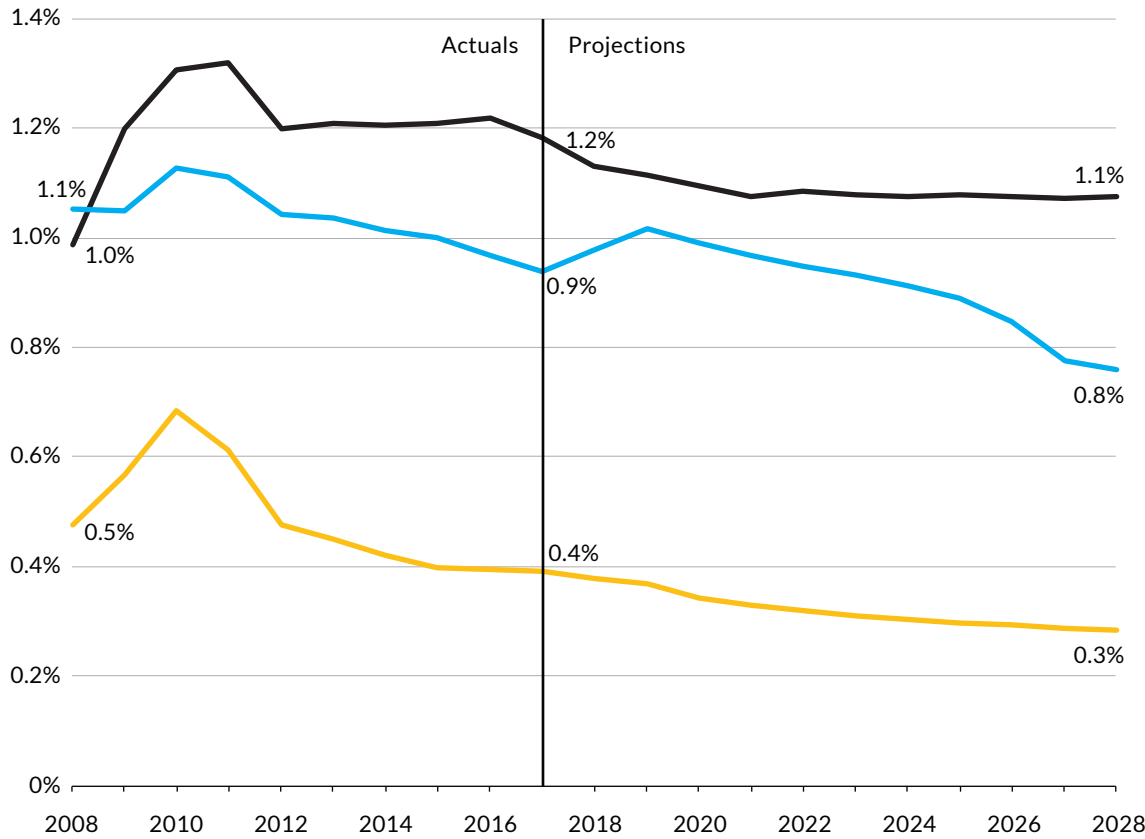
- **Mandatory spending** on children is also projected to fall over the projection period, although to a lesser degree than the other two types of expenditures. The projected decline is driven by mandatory nonhealth programs (see figure 15). **Mandatory health spending** is projected to remain essentially flat relative to GDP and is the only type of spending on children that is projected to be a higher share of GDP in 2028 than it was in 2008, at the onset of the recession.
- Total expenditures on children, including tax reductions, are projected under current law to fall relative to the size of the economy, from 2.5 percent of GDP in 2017 to 2.1 percent in 2028. This is below the prerecession level of 2.4 percent in 2007 (data not shown).

¹⁴ These projections assume that the overall patterns of nondefense discretionary spending under the current-law spending caps apply to all children's programs uniformly. That is, they do not reflect program-specific appropriations made in the Consolidated Appropriations Act of 2018 because of data limitations discussed further in the appendix.

FIGURE 14

Federal Expenditures on Children as a Share of GDP by Spending Type, 2008–28

■ Mandatory spending ■ Tax provisions ■ Discretionary spending



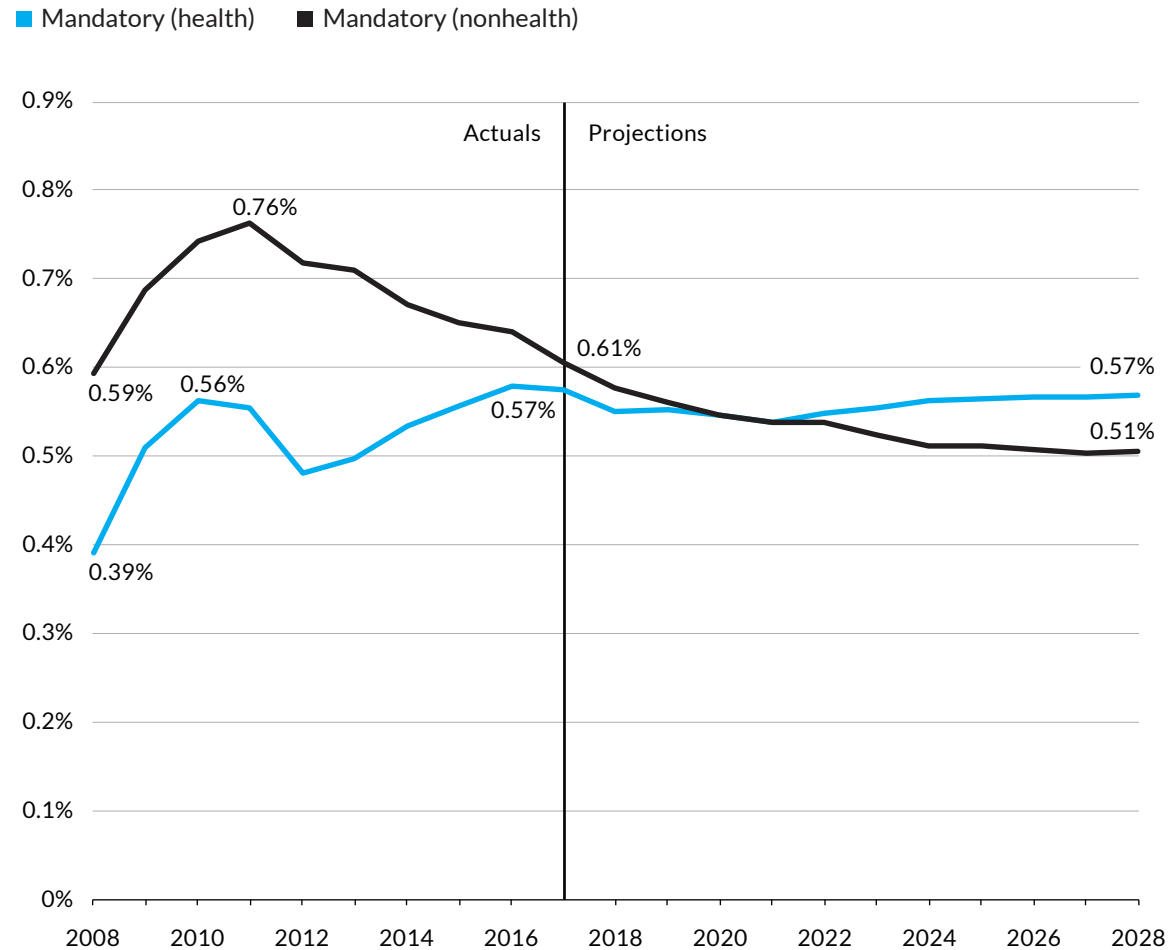
All three types of federal expenditures on children are projected to decline as a share of the economy when comparing 2017 and 2028.

Source: Authors' estimates based primarily on Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028* (Washington, DC: Congressional Budget Office, 2018), and Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019* (Washington, DC: US Government Printing Office, 2018) and past years. For more source information, see the appendix.

Nonhealth mandatory programs are projected to decline over the projection period.

FIGURE 15

Federal Health and Nonhealth Mandatory Expenditures on Children as a Share of GDP, 2008–28



Source: Authors' estimates based primarily on Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028* (Washington, DC: Congressional Budget Office, 2018), and Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019* (Washington, DC: US Government Printing Office, 2018) and past years. For more source information, see the appendix.



Which categories of spending on children (e.g., health, education) are projected to decline over the next decade?

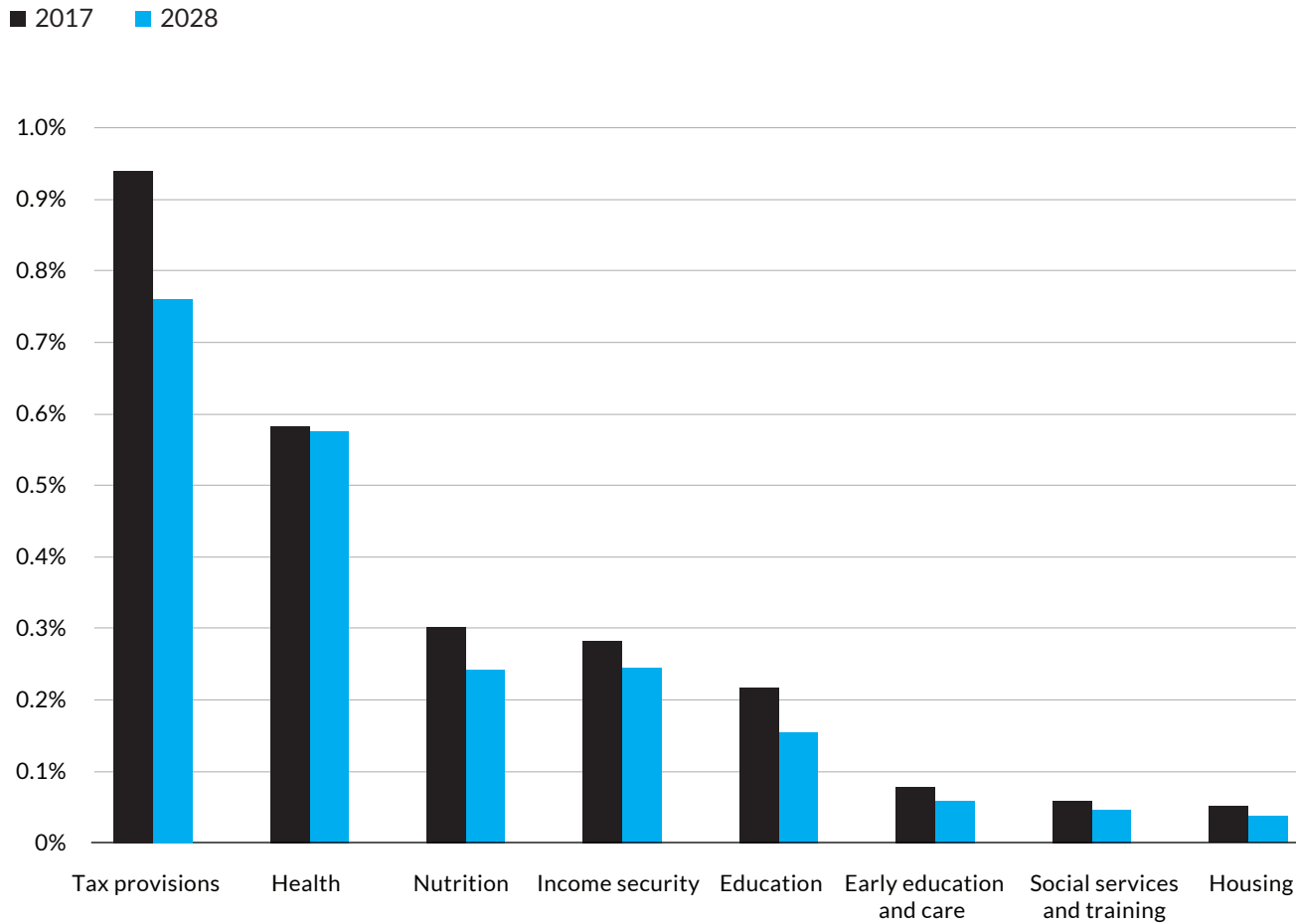
All categories of spending on children are projected to decline relative to GDP. Most categories also see declines in real dollars.

- Children's **health** spending is projected to rise modestly in real dollars but fall slightly as a share of GDP. The growth in real spending is driven by economy-wide increases in health care costs and modest growth in child enrollment in Medicaid.
- Spending on **income security** is expected to rise slightly in real dollars but fall as a share of GDP. This program declines less than others because some income security benefits are automatically adjusted for inflation (e.g., survivors' and dependents' benefits under Social Security and disabled children's benefits under SSI).
- All other categories are projected to decline in real dollars and to decline even more steeply relative to GDP. This includes spending on **nutrition** (e.g., SNAP and WIC), **K-12 education** (e.g., Title I and special education), **early care and education** (e.g., Head Start and child care assistance),

housing (e.g., Section 8 and public housing), and the youth portions of **training** (e.g., Job Corps and Work Investment Act youth formula grants) and **social services** (e.g., child welfare services). Many of these programs are discretionary programs constrained by spending caps under the BCA and subsequent amendments.

FIGURE 16

Federal Expenditures on Children as a Share of GDP, by Category, 2017 and 2028



All categories of spending on children are projected to decline relative to GDP.

Source: Authors' estimates based primarily on Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028* (Washington, DC: Congressional Budget Office, 2018), and Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019* (Washington, DC: US Government Printing Office, 2018) and past years. For more source information, see the appendix.

Most categories of spending on children are also projected to decline in real dollars.

TABLE 4

Federal Expenditures on Children in Selected Years, by Category

Category of spending	As a Share of GDP			Billions of 2017 Dollars		
	2017	2028	Percentage point change	2017	2028	Dollar change
Health	0.58%	0.58%	-0.01%	112	137	25
Nutrition	0.30%	0.24%	-0.06%	58	57	-0.6
Income security	0.28%	0.24%	-0.04%	54	58	4
Education	0.22%	0.15%	-0.06%	42	37	-5
Early education and care	0.08%	0.06%	-0.02%	15	14	-1
Social services and training	0.06%	0.05%	-0.01%	11	11	-0.4
Housing	0.05%	0.04%	-0.01%	9	8	-1
Refundable portions of tax credits	0.39%	0.28%	-0.10%	74	67	-7
Tax reductions	0.55%	0.48%	-0.08%	106	113	7
Total expenditures	2.51%	2.12%	-0.39%	481	502	21
Total outlays (all but tax reductions)	1.96%	1.64%	-0.32%	375	389	14

Source: Authors' estimates based primarily on Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028* (Washington, DC: Congressional Budget Office, 2018), and Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2019* (Washington, DC: US Government Printing Office, 2018) and past years. For more source information, see the appendix.

Note: Numbers may not sum to totals because of rounding.



APPENDIX: METHODS

Estimating the portion of government spending on children requires making assumptions and decisions about how to classify and allocate federal, state, and local spending and tax data. First, we identify programs that directly benefit children or households with children. Second, we collect expenditure data from federal sources, particularly the Office of Management and Budget's *Budget of the United States Government, Fiscal Year 2019* (OMB 2018a) and prior years, drawing on its *Appendix* volume for information on spending and the *Analytical Perspectives* volume for tax reductions. Finally, we estimate the share of each program's spending that directly benefits children. These methodological steps are described below, followed by a discussion of methods for estimating spending on the elderly, state and local estimates, future projections, and methodological changes made in this year's report. Further details regarding methods are available in *Data Appendix to Kids' Share 2018* (Hong et al. 2018).

DEFINING AND IDENTIFYING PROGRAMS BENEFITING CHILDREN

Like all budget exercises that allocate spending to categories, defining spending that goes to children is a complex task that could be calculated using different methodologies. Each dollar spent on a particular program must be determined to go to a particular recipient. This task is relatively straightforward for programs that spend directly on children—elementary education is a simple example. But for programs that serve both children and adults, discerning who benefits from spending is more difficult. For example,

how should one determine the amount of refundable tax credits, such as the EITC, distributed to adults rather than to children? Calculating spending on children and comparing data over time requires a concrete and consistent set of rules and assumptions.

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

- benefits or services are provided entirely to children (e.g., K-12 education programs, Head Start), or serve all age groups but deliver a portion of benefits directly to children (e.g., SSI payments for children with disabilities, Medicaid services for children);
- family benefit levels increase with family size (e.g., SNAP, low-rent public housing); or
- children are necessary for a family to qualify for any benefits (e.g., TANF and the child tax credit).

Therefore, some services that may benefit children are excluded from our calculations because they do not directly rely on the presence of a child. For example, unemployment insurance and some tax benefits for homeownership may benefit children, but because being a child or having a child are not prerequisites for these services, and because having a child does not result in any additional direct monetary benefit, they do not meet the criteria for inclusion in our analysis. Additionally, we do not include programs generally classified as public goods that provide benefits to the general population, such as roads, communications, national parks, defense, and environmental protection.

In reporting federal expenditures on children, our most comprehensive measure includes *tax reductions* (e.g., reduced tax liabilities as a result of the child tax credit, the dependent exemption, or other provisions in the tax code) as well as direct *program outlays* from programs such as Medicaid, child nutrition programs, and education programs. In other places, we focus solely on budget outlays for children, such as when we report the share of total federal outlays spent on children. Some tax provisions are included in our estimates as outlays: the portions of the EITC and the child tax credit paid out to families as a tax refund (and treated by the Treasury Department as outlays rather than as reductions in tax liabilities), as well as the outlay portions of smaller tax provisions (e.g., outlays associated with Qualified Zone Academy Bonds). The division of tax subsidies between outlays (for the refundable portion of credits) and tax reductions (for the nonrefundable portion) adheres to standard budget accounting practices used by the Office of Management and Budget, Department of the Treasury, and Joint Committee on Taxation.

COLLECTING EXPENDITURE DATA

Expenditure data on program outlays largely come from the *Appendix, Budget of the United States Government, Fiscal Year 2019* (and prior years). The *Analytical Perspectives* volume of the budget provides tax expenditure data. For programs not included in the *Appendix*, we obtain expenditure data from the

relevant agencies' budgetary documents or their representatives. In this report, all budget numbers represent fiscal years, and we have expressed them in 2017 dollars unless otherwise noted.

CALCULATING THE SHARE OF PROGRAM SPENDING ON CHILDREN

Some programs exclusively spend on children, while others benefit the general population regardless of age. We calculate each program's share of spending going to children in one of the following ways:

- For programs that serve children only, we assume 100 percent of program expenditures (including benefits and associated administrative costs) go to children.
- For programs that directly serve people of different ages (e.g., Medicaid, SSI), we determine the percentage of program expenditures that goes to children.
- For programs that provide benefits only to households with children, with the amount of benefits determined by the number of children (e.g., child tax credit, dependent exemption), we consider 100 percent of program expenditures as going to children.

- For other programs that provide families benefits 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, assuming equal benefits per capita within the family (e.g., TANF and SNAP).

For large programs, such as SNAP, Medicaid, and SSI, we put significant effort into correctly estimating the share of spending that goes to children. In some cases, programs publicly release administrative data on spending on children, but we must occasionally contact federal agency staff directly to obtain participation data. Using the best data available, we then calculate spending on children. When program data are unavailable, other Urban Institute researchers provide carefully crafted estimates using, for example, the Urban Institute's Transfer Income Model, Health Insurance Policy Simulation Model, and the Urban-Brookings Tax Policy Center Microsimulation Model. In some cases, we scour government websites or contact federal agency staff directly to obtain program participation information.

METHODS FOR SPENDING ON THE ELDERLY

While *Kids' Share* focuses on federal expenditures on children, we also have developed rough estimates of spending on the elderly, namely, spending in 16 programs: Social Security, Medicare, Medicaid, SSI, SNAP, veterans benefits, Railroad Retirement, unemployment compensation, Federal Civilian Retirement, Military Retirement, Special Benefits for Coal Miners, Veterans Medical Care, annuitants' health benefits, housing, the Administration for Community Living (previously the Administration of Aging), and the Low Income Home Energy Assistance Program. As with our methodology for children, we estimate the share of the program that goes to the elderly population; for example, we subtract spending on children and 19- to 64-year-old disabled adults to estimate the elderly's share of spending for Social Security, Medicare, and Medicaid. However, except in estimates denoted as "elderly spending," our estimates for adult portions of Social Security, Medicare, and Medicaid include all spending on people ages 19 and older.

METHODS FOR STATE AND LOCAL ESTIMATES

Although this report focuses on federal expenditures on children, it also estimates state and local spending on children from 1998 to 2015. Estimates for 1998 to 2008 are drawn from the Rockefeller Institute of Government's State Funding

for Children Database, as described by Billen and colleagues (2007); estimates for 2009 to 2014 are by the *Kids' Share* authors. Both sets of estimates focus on state and local expenditures for K–12 education, state earned income tax credits, and several joint federal-state programs (Medicaid, CHIP, Maternal and Child Health Block Grants, TANF, child support enforcement, child care, and several child welfare programs). Data sources for the 2009–15 estimates include the US Census Bureau's Annual Survey of School System Finances, unpublished tabulations of Medicaid claims (MSIS data), the websites and reports of various federal agencies, and information from the IRS compiled by the Urban-Brookings Tax Policy Center. Most state programs were assumed to spend 100 percent on children; the exceptions are Medicaid, TANF, and CHIP.

METHODS FOR PROJECTIONS

To estimate future trends in spending on children, we primarily use the Congressional Budget Office's *Updated Budget Projections: 2018 to 2028*. For projecting expenditures under tax provisions, we turn to the Urban-Brookings Tax Policy Center Microsimulation Model for major tax provisions and the Office of Management and Budget's projections in *Analytical Perspectives* for smaller tax provisions. The projection methodology differs depending on whether a program is mandatory, discretionary, or a tax reduction.

In the mandatory spending area, the CBO baseline projections assume a continuation of current law, except that certain expiring programs that have been continually reauthorized in the past are also assumed to continue. In general, for programs serving both children and adults, we assume that the share of spending directed to children for each program will remain constant from 2018 to 2028. However, we use CBO's detailed projections by age group for Medicaid, Social Security, and SSI.

For discretionary spending, with spending set by appropriations action annually and potentially subject to the BCA spending caps in some years, the CBO traditionally uses a baseline assumption that spending is kept constant in real terms—that is, spending is based on the most recent year's appropriation, adjusted for inflation. However, in recent years, the CBO baseline has been adjusted downward to reflect caps on defense and nondefense spending as established by the BCA and subsequent amendments. Under the most recent legislation, the Bipartisan Budget Act of 2018 and the Consolidated Appropriations Act of 2018, defense and nondefense spending is projected to increase in 2018 and 2019 before declining in 2020–21 to meet the spending caps. Spending in 2022–28 is assumed to continue at the level of the 2021 caps, adjusted for inflation.

The Urban-Brookings Tax Policy Center Microsimulation Model provides 10-year projections for the four largest tax provisions: the dependent exemption, the child tax credit, the EITC, and the child and dependent care credit. These projections are made assuming continuation of current law, including the expiration in 2026 of many provisions of the Tax Cuts and Jobs Act of 2017. For all other, smaller tax provisions, we use the five-year projections from *Analytical Perspectives* and then apply the projections' average growth rate to the following five years.

Finally, note that the overall effects of the Bipartisan Budget Act of 2018 and the Consolidated Appropriations Act of 2018 are reflected in the Congressional Budget Office's projections and thus in our *Kids' Share* projections. However, the CBO projections did not show the effects of this legislation on a program-by-program basis because of the short time between the legislation's enactment and the release of the projections. Because of this lack of data, our projections cannot explicitly capture the increases in specific programs (i.e., the large increases in child care in 2018 and 2019). Instead, we assume that the overall patterns of nondefense discretionary spending under the current-law spending caps apply to all children's programs uniformly, specifically the

increases in 2018 and 2019 followed by declines in 2020–21. Note that we do not publish program-specific projections, given their tentative nature, even in years without such late appropriations actions. As in past years, our statements about future spending focus on spending as a whole and in broad categories, such as health and education, or types of spending, such as mandatory and discretionary.

MAJOR CHANGES SINCE LAST YEAR

We made two changes to more consistently define children as those under age 19. Most notably, we adjusted our dependent exemption estimates to exclude “children” 19 and older (i.e., removing 19- to 23-year-old students); this downward adjustment was carried through estimates for 1960–2028.

We also made a smaller refinement to Medicaid estimates to better reflect 18-year-old children in the projections. In addition, we identified and corrected an error that overstated the percentage of means-tested programs, reducing our estimate of means-tested tax programs and provisions from 65 to 61 percent. Finally, we removed three programs from our estimates of spending on children. Two of these programs (emergency medical services to children and universal newborn hearing) do not meet our

threshold of spending at least \$50 million on children, and the third, Safe Routes to Schools, is difficult to track because it no longer exists as a separate program. Spending from these three programs was removed from spending estimates in all years to maintain a consistent definition of spending on children.

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