How Targeted Are Federal Expenditures on Children?

A Kids' Share Analysis of Expenditures by Income in 2009

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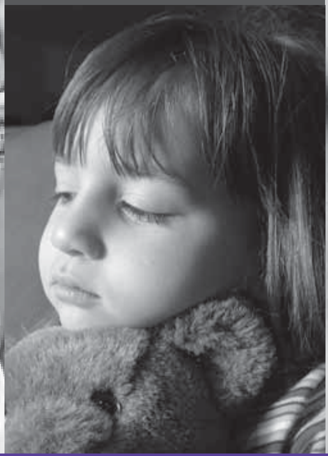

The Urban Institute

BROOKINGS

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The authors are grateful to the Foundation for Child Development for sponsoring this research. We also thank the funders of our previous work on children's budgets, specifically the Annie E. Casey Foundation, First Focus, The Irving Harris Foundation, the Strategic Knowledge Fund, and The Buffett Early Childhood Fund. We also are indebted to the authors of previous reports on children's budgets for providing a valuable foundation for this work, including C. Eugene Steuerle, Jennifer Macomber, Adam Kent, Elizabeth H. Bringewatt, Adam Carasso, Gillian Reynolds, Rebecca L. Clark, Rosalind Berkowitz King, and Christopher Spiro. We also thank Paul Johnson and Matthew Buettgens for their help with the analysis and those who reviewed the report and offered many helpful insights, including Olivia Golden, C. Eugene Steuerle, and Genevieve Kenney.

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EXECUTIVE SUMMARY

Child poverty rose in 2010 as the nation continued to feel the recession's effects. Forty-four percent of children were living in families with incomes below 200 percent of the poverty level—up from 42 percent in 2009. Yet, public spending on children may be in jeopardy as Congress debates federal spending cuts and states search for ways to trim their budgets. Policymakers and the public need to know how public resources are being spent to understand who will be affected by potential cuts—and what the long-term consequences of reduced spending and investment could be.

Our annual series of Kids' Share reports has been tracking how children fare in the allocation of public resources. In this groundbreaking report, the analysis is extended for the first time to examine how spending varies by family income. Arguments exist for targeting scarce federal investments to more disadvantaged children, as welfare and Medicaid programs do, and for subsidizing children through more universal programs, such as public education and child credits. This report does not answer the question of how much we should spend on children at different income levels but rather tracks how spending is allocated.

Our most in-depth analysis focuses on federal expenditures, but we also look at spending by states and localities. We estimate spending on children largely by the amount a family receives because it has a child. Low-income children in this report are defined as children age 18 and younger in families with incomes less than twice the federal poverty level (200 percent of FPL) or about $34,000 for a family of three in 2009.

During the past 50 years, the federal government has devoted a considerable share of spending on children to those in low-income families. Analyses of federal spending in 2009, the most recent year for which income data were available, reveal the following:

- Low-income children, who make up 42 percent of the child population, received 70 percent of all federal spending on children in 2009. The federal government spent $291 billion on low-income children in 2009—more than twice the $127 billion spent on higher-income children.
- Federal expenditures on children for health, nutrition, social services, housing, and training are strongly targeted toward low-income children because these programs are largely means tested. We estimate that low-income children receive 99 percent of housing expenditures, 98 percent of expenditures on nutrition, 97 percent of health expenditures, and 94 percent of expenditures on social services.
- In contrast, federal education spending is split fairly evenly, with 55 percent going to children in low-income families and 45 percent going to higher-income children.
- Spending on children through income security programs, such as cash welfare and Social Security, also is less targeted than most other spending categories, with two-thirds going to low-income children and one-third to higher-income children. While Temporary Assistance to Needy Families

(TANF) and Supplemental Security Income (SSI) benefits are heavily targeted to low-income children, Social Security dependent and survivors benefits are paid out in rough proportion to the child population.

- Medicaid is the biggest federal program for low-income children. In 2009, Medicaid spent $68 billion on low-income children, or nearly a quarter (23 percent) of total federal spending on low-income children.
- Although low-income children receive the majority of refundable tax credits, higher-income children receive the majority of tax reductions that subsidize children. One reason for this split is that many low-income families do not owe taxes and cannot benefit from direct reductions in taxes.
- In-kind benefits are more strongly targeted toward low-income children than are cash benefits. For every dollar spent on low-income children, 68 cents derives from in-kind benefits such as health, nutrition, housing and education; 19 cents from refundable tax credits; 8 cents from monthly cash benefits; and 6 cents from other reductions in tax liabilities. For every dollar spent on higher-income children, 60 cents comes from reductions in tax liabilities, 22 cents from in-kind benefits, 12 cents from monthly cash benefits, and 6 cents from tax refunds.

State and local spending on children is much less targeted than federal spending. Our estimates suggest that less than half (48 percent) of state and local spending on children was directed to low-income children in 2008, the most recent year for which complete estimates were available. State spending on Medicaid, SCHIP, TANF, child care assistance, child welfare programs, and state earned income tax credits is all heavily tilted toward low-income children, but this is balanced out by state and local spending on education, which supports all children. Our state and local estimates for spending on higher-income children may be conservative because data limitations required us to leave out most child-related tax provisions. We make the cautious assumption that education spending is distributed equally per child across both income groups. A more inclusive estimate of state and local expenditures might find less or no targeting toward lower-income children.

Although our state and local estimates are rough, we combine them with our federal spending estimates to get a more comprehensive view of public spending by income group. When federal, state, and local spending on children (excluding tax expenditures) are taken together, low-income children receive about twice as much, per capita, as higher-income children. The federal government is the junior partner for public spending on children as a whole—federal money accounts for about one-third of all spending on children; state and local spending accounts for the rest. However, for low-income children, our estimates suggest that the federal government shares costs roughly equally with states and localities (45 percent vs. 55 percent). For higher-income children, on the other hand, about 85 percent of public support is state and local, while only 15 percent comes from federal dollars (not counting tax expenditures).

For several reasons, 2009 may not have been a typical year for federal expenditures on children. The recession likely led to more children qualifying for heavily targeted programs, such as Medicaid and the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps)—meaning greater federal expenditures. In addition, the American Recovery and Reinvestment Act (ARRA) of 2009 boosted federal spending through Medicaid, SNAP, and other programs benefiting low-income families. Because the size of the low-income population also was also higher in 2009 than in earlier years, we cannot say whether spending *per low-income child* in 2009 is higher or lower than other years. It will be important to continue monitoring spending on low-income children as federal and state budgets are cut, especially if effects of the recession continue to linger.

INTRODUCTION

How the government spends money, and who benefits, reveals a nation's priorities. Our annual series of *Kids' Share* reports has been tracking how children fare in the allocation of public resources. To date, these reports have tracked federal expenditures across all children (Isaacs et al. 2011) and analyzed spending by age groups (Macomber et al. 2010). In this report, the analysis extends for the first time to expenditures by income. How much are federal resources targeted to low-income children versus being dispersed more universally across the income distribution? Is there a difference in the targeting of spending on nutrition assistance versus education versus tax breaks? How do federal expenditures compare with state and local investments? Who will be affected if federal and state governments cut spending? Knowing who benefits from different programs and how resources are prioritized is crucial for understanding current programs and making informed choices about future investment.

In this report, we focus on government spending directed to low-income children. More than two-fifths of American children—42 percent in 2009—live in families with incomes less than twice the poverty level.[1] More than a third of these low-income children are non-Hispanic white, another third are Hispanic, between a fifth and a quarter are black, and the remaining 6 percent are other races.[2] About half of these low-income children live in married-couple families, and the other half live in single-parent families. In 2008, slightly more than half (51 percent) of low-income children lived in a family with at least one full-time, full-year worker; the remaining share lived with parents that worked part-time or part-year (29 percent) or were not employed (20 percent) (Chau 2009).

The federal government has played an important role in providing assistance to low-income children and families over the past half-century. During the 1960s, a number of new programs were developed with this aim, including the Food Stamp program (1964), Medicaid (1965), Education for the Disadvantaged (1965), and Head Start (1966). The federal government also provides assistance to populations with disabilities and other special needs. Some of these programs are restricted to low-income populations (e.g., Supplemental Security Income), while others serve anyone regardless of income but may disproportionally benefit low-income individuals because they have a higher incidence of targeted problems, such as disabilities (e.g., Special Education).

The federal government has many reasons to assist low-income children and their parents. For one, these children have higher levels of need. Low-income households with children are five times as likely as higher-income households with children to experience food insecurity among children (23 percent vs. 4 percent) and ten times as likely to experience "very low" food security, a status formerly denoted as hunger, among children (3 percent vs. 0.3 percent).[3] In 2001, low-income working families were twice as likely as middle-income families to report difficulty paying for food, twice as likely to lack health insurance, and half again as likely to miss a rent, mortgage, or utility payment (Acs and

Nichols 2006). Humanitarian concerns (that the basic needs of all children should be met) and commitments to equal opportunity (that all children should have an equal shot at the American Dream) motivate many Americans to support some level of assistance to low-income families. Additionally, research suggests that early investment in disadvantaged children may lead to better outcomes later in life, in turn benefiting society as a whole (Heckman 2006). Tight budgets provide further incentive to target scarce resources to children with the greatest needs because public investments in this area may have the largest payoffs. Finally, societal values may lead us to place a high premium on protecting the future generation, and the most vulnerable receive the greatest benefit from such protection.

Good arguments also exist for universal programs that provide resources to children across the income distribution. Universal programs avoid the danger of two-tier services, where publicly funded programs for low-income individuals may offer lower levels of services than privately funded programs for middle- and upper-income individuals. They also avoid some of the red tape and administrative inefficiencies of extensive applications and income documentation. Universal programs may avoid some of the perverse effects of negative behavioral incentives, such as parents possibly working less to qualify for benefits limited to families with low incomes. Universal programs also avoid the very high implicit tax rates that many beneficiaries of means-tested programs face, as they may lose 20 or 50 cents of benefits, in addition to direct tax rates, when they earn an additional dollar. Advocates sometimes argue that universal programs such as Social Security enjoy more popular support than means-tested programs because everyone stands to benefit from them.

Prior analyses have found that less than 10 percent of federal expenditures in 2009 were devoted to children (Isaacs et al. 2010). The goal of this report is to identify how public spending on children is allocated across income groups. Our deepest analysis focuses on federal expenditures, but the report also provides some information about state and local spending. We do not seek to answer how much should be spent on children at different income levels, nor do we attempt to judge the effectiveness of such spending. Because we have data for only one year—2009—we cannot say much about how spending by income changes in response to economic conditions or exhibit other trends over time. What this report does provide is a first-time look at how much federal expenditures on children are targeted to those from low-income families. We define children as low income if they live in families whose incomes are less than twice the federal poverty level (200 percent of FPL).

The next section of the report briefly discusses our methodology. Then we turn to our findings for federal expenditures. We examine the amount the federal government spends on low-income children, the form of these expenditures (outlays vs. tax expenditures), and how narrowly spending is targeted within major categories of spending (health, education, nutrition, etc.). We also examine the 10 programs or tax provisions that account for most expenditures on low-income children and on children from higher-income families. We next analyze how many federal dollars are spent on low-income children from mandatory, discretionary, and tax programs. The findings section concludes with an analysis of the state and local government contribution to spending on low-income children.

METHODS

This report, like other *Kids' Share* reports, relies on a comprehensive database of federal expenditures on children that was developed by researchers at the Urban Institute and Brookings Institution. It includes outlays (spending) from federal programs that benefit children age 18 and younger and tax expenditures from child-related tax provisions. Only programs or tax provisions that directly benefit children or benefit households because of the presence of children are included. Not all programs that provide benefits to families are included under our definition of spending on children. Excluded, for example, are unemployment compensation, the Making Work Pay tax credit, tax benefits for homeownership, and other benefits where the amount the adult receives is not related to the presence or number of children. Further, this analysis does not include programs that provide benefits to the population at large (a significant share of whom are children), such as roads, communications, national parks, and environmental protection. Some excluded programs likely benefit higher-income children disproportionately, while other programs may be of greater benefit to low-income children.

The primary source of expenditure data is outlay estimates from the *Appendix to the Budget of the U.S. Government.* In addition, many analyses use data on tax expenditures from the *Analytical Perspectives* volume of the budget. Significant effort is put into estimating the portions of various programs and tax provisions that go just to children, as described in the methodological appendix that accompanies each annual *Kids' Share* report.[4]

In this report, we extend past work by estimating the share of expenditures that go to children in different income groups. Initially, we had hoped to examine expenditures across five poverty groups, but data limitations restricted us to just two income groups—those with family incomes above or below 200 percent of the federal poverty level.[5] Even splitting expenditures into these two categories required in-depth research to make estimates across every relevant program.

We used a measure based on a multiple of the poverty level, rather than a strict income level (e.g., $25,000), because the poverty level differs by family size, thereby incorporating economies of scale. Like many other analysts, we chose to focus on the low-income population with incomes below 200 percent of FPL, rather than the poverty population with incomes below 100 percent of FPL, recognizing that many families with incomes above the official poverty level still struggle to make ends meet. In 2009, the poverty level was about $17,000 for a family of three, and twice the poverty level for that same family size was about $34,000.

Still, even the official poverty level is admittedly an imperfect measure. It does not take into account changes that have occurred since the poverty level was developed in the 1960s, the cost of living in different locations, the resources families receive from noncash benefits or tax credits, or other refinements that are being added to alternative poverty measures, including the new federal supplemental poverty measure. Though subject to much criticism, the official measure

has important advantages for this project. It is a cash-based measure that is uniform across the country, and it is the definition used in most federal programs today and expected to be used in the future, even after the introduction of the supplemental poverty measure. For these reasons and others, the available data in administrative records could only support this measure, not a more sophisticated one requiring detailed knowledge about family characteristics and receipt of noncash benefits.

Our program-by-program estimates of the percentage of expenditures spent on low-income children are based on a combination of program-level administrative data, survey data, eligibility rules, and estimates generated by other researchers at the Urban Institute, including tabulations generated by the Health Insurance Policy Simulation Model (HIPSM), the Urban-Brookings Tax Policy Center Microsimulation model, and the Transfer Income Model 3 (TRIM3).[6] The variety of methods used can be seen in appendix table A.1, where we detail methods for the 10 largest federal programs. We used a combination of administrative data and knowledge of programmatic rules in our estimates for Medicaid, Temporary Assistance to Needy Families (TANF), the Supplemental Nutrition Assistance Program (SNAP), and child nutrition; the Tax Policy Center's model when estimating the dependent exemption; the TRIM model for Social Security, the earned income tax credit (EITC), and the child tax credit; data about student eligibility for free and reduced-price lunches to get a lower-bound estimate for the Title I program; and survey data from a special study for the estimates on special education.

For a few small programs that were not means tested and had limited data, we sometimes made the simplifying assumption that low-income and higher-income clients received similar levels of services and thus spending was proportional to the population (42 percent low income in 2009). For example, we assumed that 42 percent of the benefits of the Missing Children's program went to low-income children. Finally, there were a few programs that lacked data, but we knew tended to serve low-income children. For these programs, such as the Maternal and Child Health Block Grant and juvenile justice programs, we made a global simplifying assumption that 71 percent of program expenditures on children went to low-income children—71 percent being the midpoint assumption between the extremes of assuming the program was universal (42 percent) or completely targeted (100 percent). A full program-by-program list of the percentage of expenditures estimated to benefit low-income children is provided in table 1 on pages 10–11.

Family incomes are often underreported in survey data and, particularly, in administrative data that are based on the months during which the family applies for benefits. For example, a family that experiences a job loss for four months and applies for assistance during that time may appear to be a low-income family in administrative data, yet may have an annual income above 200 percent of FPL. Moreover, in the case of administrative data, the definition of family income varies across programs, as each federal program has its own definition of what income is counted, what income is disregarded, and who must be included in the application. Because of these data inconsistencies, our estimate of the percentage of expenditures on low-income children should be considered approximate. A program estimated to spend 93 percent of its funds on low-income children may differ from one spending 89 percent simply because of data inconsistencies. Such differences are not likely to affect significantly our aggregate estimate of the proportion of federal expenditures spent on low-income children versus children from higher-income families.

We divide federal expenditures into two main categories: outlays (spending on children) and tax expenditures (reduced tax liabilities due to the presence of children). In our *Kids' Share* reports, the refundable portions of tax credits (which are paid out as checks to families) are treated as outlays whereas the nonrefundable

portions are counted as tax expenditures. This achieves consistency with budget accounting where outlays are tracked separately from tax expenditures. However, this division is at times problematic in this report, which classifies expenditures by income, because the distinction of whether a tax credit is refundable is itself driven by family income. We therefore also provide information about the total impact of tax provisions, regardless of whether they are outlays or tax expenditures.

Finally, we also calculate state and local spending on children, drawing our data from the Rockefeller Institute State Funding Database. Because of the challenge of collecting data across 50 states, the latest year of data in this area is 2008, and the estimate is based on a dozen major programs, namely, elementary and secondary education, state programs associated with major federal programs, and state earned income tax credits. For state funding of federal/state programs such as Medicaid and the Child Care and Development Block Grant, we assumed that state funds were distributed across income groups in the same way as the federal funding of the programs. For state and locally funded foster care and adoption assistance, we did not assume 100 percent were low income (as assumed for federal funding due to eligibility rules), but still assumed the majority of children come from low-income families, based on available data on the characteristics of abused and neglected children.

Our biggest challenge in the state and local estimates was estimating the proportion of state and local education funding that serves children above and below 200 percent of FPL. In the past, conventional wisdom held that spending per capita was higher in richer school districts, and indeed, many homebuyers with children seek to live near schools that serve higher-income children. However, with educational reform, more state resources are targeted to low-income districts. High spending on special-needs children and high cost structures in urban districts also increase costs in low-income districts. Rueben and Murray (2008) find a significant decrease in inequality in educational spending over the past three decades, and Rouse and Barrow (2006) find that districts where 70 percent or more of the students are low income actually spend more per capita than districts where 20 percent or fewer of the students are low income.[7] As Rueben and Murray note, however, despite convergence of spending across districts, inequality may still be found across schools within districts—for example, if the more senior teachers gravitate to the schools in more affluent neighborhoods. After reviewing the available evidence, we were left uncertain whether spending on low-income children is indeed lower or higher than spending on children from higher-income families, and so made the simplifying assumption of roughly equal spending across the two income groups; that is, in 2008, 41 percent was spent on children below 200 percent of FPL and 59 percent on children above 200 percent of FPL.

Of note, federal expenditures on low-income children were likely higher in 2009 than in typical years because the recession led to more children qualifying for heavily targeted programs such as Medicaid and SNAP. In addition, the American Recovery and Reinvestment Act of 2009 increased federal spending under Medicaid, SNAP, and other programs benefiting low-income families. However, the size of the low-income population also increased. With only one year of expenditure data, we cannot say whether spending on the low-income population in 2009 is higher or lower than other years *relative to the size of the low-income population.* What we do know is that the size of the low-income population grew in 2009: 42 percent of children lived in families with low incomes in 2009 compared with 39 percent in 2005. We also know that the percentage of children living in low-income families rose to 44 percent in 2010 (DeNavas-Walt, Proctor, and Smith 2011). Until we have multiple years of data, we will not be able to say whether spending on low-income children rises in proportion to need during recessions.

FINDINGS

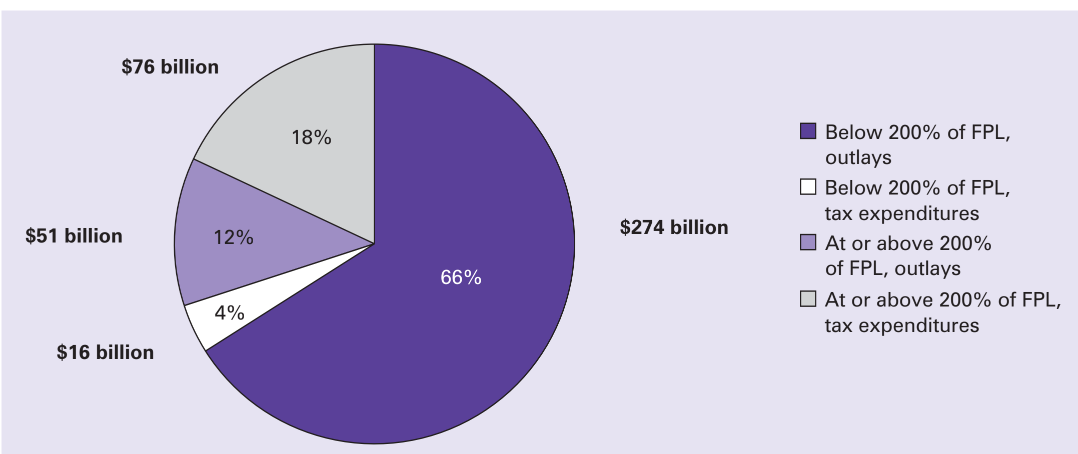
How much are federal expenditures targeted to low-income children?

More than two-thirds (70 percent) of federal spending and tax expenditures on children were spent on low-income children in 2009. This includes $274 billion in outlays and $16 billion in (the nonrefundable portion of) tax expenditures (figure 1). The remaining 30 percent benefited children from families with incomes above 200 percent of FPL in 2009, including $51 billion in outlays and $76 billion in tax expenditures. In other words, federal expenditures were indeed targeted to low-income children, who made up 42 percent of the population yet received 70 percent of the expenditures in 2009.

Low-income children received the vast majority of outlays on children (84 percent). Many of these outlays are dispersed through federal programs that explicitly limit eligibility to poor or low-income children, such as Medicaid, SNAP, TANF, and Supplemental Security Income (SSI). The reverse was true of tax expenditures: 82 percent of tax expenditures went to children from families with incomes above 200 percent of FPL. One reason for this allocation is that many low-income families do not owe taxes and thus cannot benefit from direct reductions in tax liability, though they can benefit from the refundable portion of tax credits, which as noted earlier are classified as outlays. The combined impact of tax provisions (combining the refundable portions with the reduced tax liabilities) is discussed further in the analyses of spending by type and category.

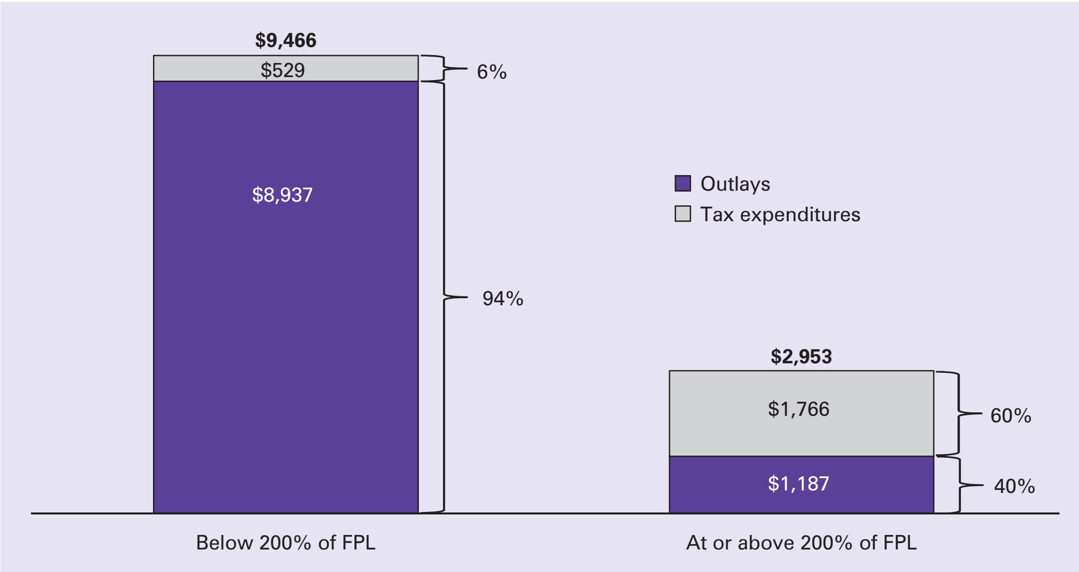
Per capita spending provides another way to examine aggregate spending on low-income chil-

FIGURE 1. Share of Federal Expenditures on Children in 2009, by Family Income



Sources: The Urban Institute and The Brookings Institution, 2011.

FIGURE 2. *Per Capita Federal Spending on Children in 2009, by Family Income*



Sources: The Urban Institute and The Brookings Institution, 2011.

dren relative to those living in families above 200 percent of FPL (figure 2). In 2009, per capita federal expenditures on low-income children were roughly three times higher than per capita expenditures on higher-income children ($9,500 vs. $3,000).

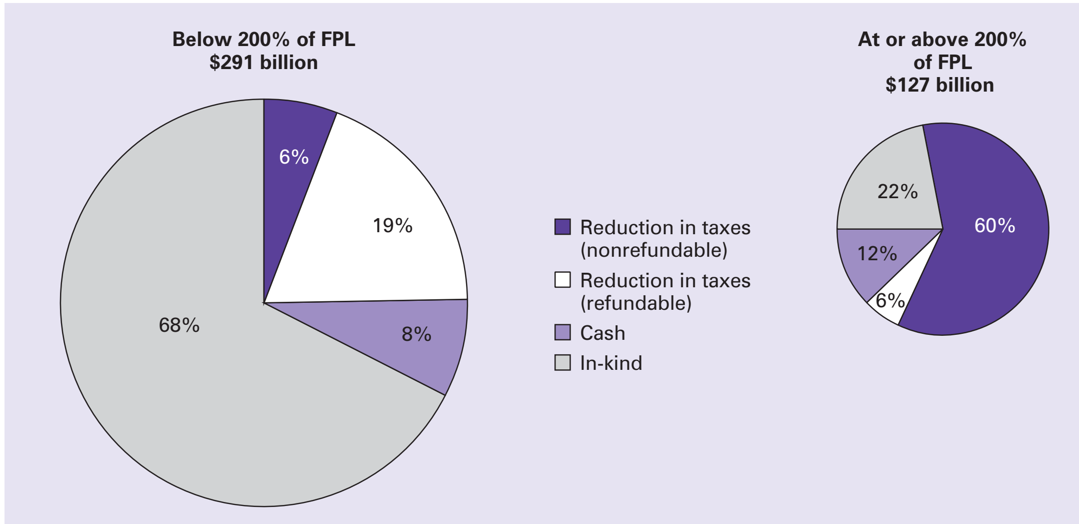
Of per capita spending, 94 percent for low-income children was spent on outlays and 6 percent on tax expenditures, whereas for children in higher-income families, 40 percent was spent on outlays and 60 percent on tax expenditures. Tax expenditures are clearly an important share of the budget for children above the low-income bracket.

How is spending on low-income children distributed?

Federal expenditures for children can take the form of in-kind benefits, reductions in tax liabilities, refundable tax credits, or cash payments. More than two-thirds of federal spending on low-income children comes from in-kind benefits, such as housing, nutrition, and education (68 percent). The next-largest category is refundable tax credits (19 percent), followed by cash payments (8 percent) and nonrefundable reductions in taxes (6 percent; see figure 3). For low-income families, payments in the form of refundable tax expenditures are twice as large as monthly cash payments from programs such as TANF, Social Security, SSI, Railroad Retirement, and veterans benefits. In sum, for every dollar spent on low-income children, 68 cents is on in-kind benefits, 19 cents on refundable tax credits, 8 cents on monthly cash benefits, and 6 cents on reductions in tax liabilities.

In contrast to their low-income counterparts, children living in families above 200 percent of FPL receive most federal benefits in the form of nonrefundable tax expenditures (60 percent). They receive a lower proportion of total assistance in the form of tax refunds (6 percent) and in-kind benefits (22 percent) and a higher proportion in the form of cash payments (12 percent) than their peers in low-income families. For these children, cash benefits from Social Security and veterans benefits outweigh benefits coming from refundable tax credits. While cash payments are a larger proportion of total assistance for higher-income children, total expenditures on cash payments

FIGURE 3. Federal Spending on Children in 2009, by Type and Family Income



Sources: The Urban Institute and The Brookings Institution, 2011.

are still higher for low-income children ($22 billion for low-income children vs. $15 billion for higher-income children).

Combining refundable tax credits and tax expenditures, a quarter (25 percent) of expenditures on low-income children is related to provisions in the tax code. A much larger percentage (66 percent) of federal expenditures on children from moderate- and upper-income households is provided through tax provisions.

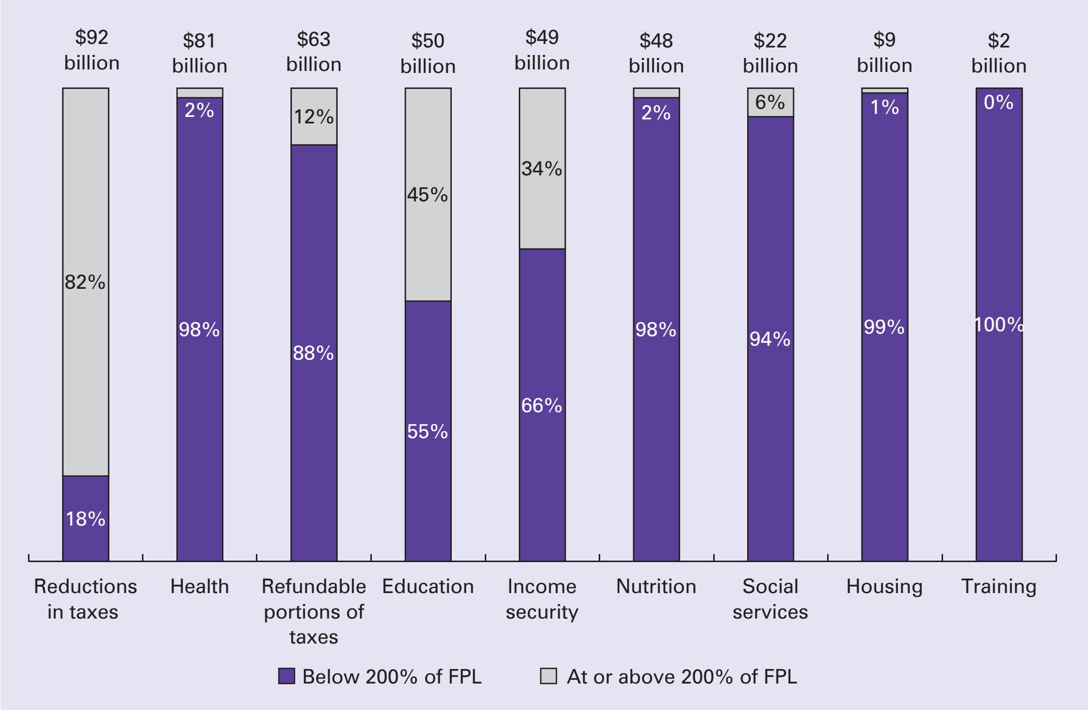
These analyses reveal that the federal government uses in-kind spending as a primary way to deliver benefits and services to low-income children. Conversely, the tax code is an important source of benefits for children who live in families with incomes above 200 percent of FPL.

How does targeting to low-income children vary across major categories of spending?

Total federal expenditures on children can be broken into nine broad categories (health, refundable tax credits, tax expenditures, education, income security, nutrition, social services, housing, and training), as shown in figure 4. (Table 1 on pages 10–11 provides more details on the specific programs within each category.) The largest category of spending, reductions in taxes ($92 billion), is targeted toward higher-income children. We find that 82 percent of reductions in taxes go to higher-income children and 18 percent to low-income children. Conversely, children's health, the second-largest category of spending ($81 billion), is highly targeted to low-income children, largely due to the Medicaid program: 98 percent of health expenditures on children are spent on children below 200 percent of FPL and 2 percent are for higher-income children.

The third-largest category of expenditures is refundable tax credits. Low-income children receive a greater share of the $63 billion spent on the refundable portions of tax credits compared with reductions in taxes: 88 percent compared with 12 percent for children in families at or above 200 percent of FPL. Combining the two tax-related categories, roughly 46 percent of tax provision benefits go to low-income children and 54 percent to higher-income children. The share of tax provisions that benefits low-income children was higher in 2009 than in previous years because of changes under ARRA that extended the refundability of the child tax credit, providing additional benefits to low-income families.

FIGURE 4. *Share of Federal Expenditures on Children in 2009, by Major Category and Family Income*



Sources: The Urban Institute and The Brookings Institution, 2011.

Education, the fourth-largest category with federal spending of $50 billion, is split fairly evenly: 55 percent goes to children in low-income families and 45 percent goes to children in higher-income families.

Income security expenditures are also less targeted than most other categories: about two-thirds (66 percent) of the $49 billion for income security programs goes to children with family incomes below 200 percent of FPL and 34 percent goes to children with family incomes at or above 200 percent of FPL. However, as shown in table 1, this average reflects very different targeting in individual programs: TANF and SSI are heavily targeted to low-income children, Social Security dependent and survivors benefits are paid out in rough proportion to the population (40 percent of benefits go to low-income children, who comprise 42 percent of the population), and veterans and Railroad Retirement benefits disproportionately benefit children from moderate- to upper-income families.

Spending in the remaining categories—nutrition, social services, housing, and training—also is heavily targeted to low-income children, who receive 100 percent of training expenditures, 99 percent of housing expenditures, 98 percent of nutrition expenditures, and 94 percent of social services expenditures. These four categories are considerably smaller than health spending, with expenditures ranging from $48 billion on nutrition to $2 billion on training programs.

Table 1 provides detailed information on federal spending in 2009 by family income for the major programs in nine expenditure categories. For each program and expenditure category, the table shows the dollar amounts spent, as well as the percentage of each program's expenditures targeted to low- and higher-income children. The table also shows each expenditure category as a percentage of total spending for both income groups.

We also group the nine expenditure categories into four overarching themes: income supports and taxes, health, education, and other.

TABLE 1. Federal Expenditures on Children in 2009, by Family Income, Category, and Program

	Below 200% of FPL			At or Above 200% of FPL		
	Spending ($ millions)	As a percent of total expenditures on poor children	As a percent of this program's spending on children	Spending ($ millions)	As a percent of total expenditures on nonpoor children	As a percent of this program's spending on children
INCOME SUPPORTS AND TAXES	**104,395**	**36**	**51**	**99,930**	**79**	**49**
Income security	**32,452**	**11**	**66**	**16,419**	**13**	**34**
Temporary Assistance for Needy Families	13,746		100	0		0
Supplemental Security Income	7,969		86	1,297		14
Social Security	7,873		40	11,573		60
Child support enforcement	2,423		63	1,423		37
Veterans benefits	433		17	2,112		83
Railroad Retirement	9		39	14		61
Refundable portions of tax credits	**55,692**	**19**	**88**	**7,695**	**6**	**12**
Earned income tax credit (outlays)	34,461		88	4,642		12
Child tax credit (outlays)	21,231		87	3,053		13
Reductions in taxes	**16,251**	**6**	**18**	**75,816**	**60**	**82**
Dependent exemption	6,494		19	27,774		81
Exclusion of employer contributions for medical insurance premiums and medical care	4,009		20	16,037		80
Child tax credit (nonrefundable)	2,736		11	22,904		89
Earned income tax credit (nonrefundable)	1,249		31	2,826		69
Dependent care credit	707		17	3,493		83
Other reductions in taxes[a]	3,012		25	9,101		75
HEALTH	**79,258**	**27**	**98**	**1,784**	**1**	**2**
Medicaid	68,345		100	343		1
SCHIP	6,191		90	703		10
Vaccines for children	3,187		100	16		1
Immunization	652		71	266		29
Other health[b]	884		66	456		34
EDUCATION	**27,807**	**10**	**55**	**22,666**	**18**	**45**
Accelerating Achievement and Ensuring Equity (Title I)	10,159		64	5,715		36
Education for the handicapped/special education	7,942		62	4,827		38
State Fiscal Stabilization Fund	3,468		42	4,848		58
School improvement	2,628		49	2,770		51
Impact aid	812		62	496		38
Innovation and improvement	493		49	504		51
Vocational (and adult) education	397		42	555		58
Dependents' schools abroad	0		0	1,110		100
Other education[c]	1,231		42	1,696		58
OTHER	**79,150**	**27**	**97**	**2,373**	**2**	**3**
Nutrition	**47,432**	**16**	**98**	**838**	**1**	**2**
Supplemental Nutrition Assistance Program	27,415		100	0		0
Child nutrition	14,325		94	838		6
Special Supplemental Food (WIC)	5,685		100	0		0
Commodity supplemental food	7		100	0		0

TABLE 1. Federal Expenditures on Children in 2009, by Family Income, Category, and Program (Continued)

	Below 200% of FPL			At or Above 200% of FPL		
	Spending ($ millions)	As a percent of total expenditures on poor children	As a percent of this program's spending on children	Spending ($ millions)	As a percent of total expenditures on nonpoor children	As a percent of this program's spending on children
OTHER (continued)	**79,150**	**27**	**97**	**2,373**	**2**	**3**
Housing	**8,825**	**3**	**99**	**109**	**0**	**1**
Section 8 low-income housing assistance	6,488		99	61		1
Low-rent public housing	1,137		99	11		1
Low income home energy assistance	1,052		97	36		3
Other housing[d]	149		99	1		1
Social services	**20,886**	**7**	**94**	**1,423**	**1**	**6**
Head Start	6,360		91	644		9
Child Care and Development Fund	5,014		95	291		5
Foster care	4,500		100	0		0
Adoption assistance	2,225		100	0		0
Social services (block grant)	857		87	128		13
Other social services[e]	1,931		84	359		16
Training[f]	**2,006**	**1**	**100**	**3**	**0**	**0**
TOTAL EXPENDITURES						
(outlays and reductions in taxes)	***290,610***	***100***	***70***	***126,754***	***100***	***30***
OUTLAYS SUBTOTAL						
(all spending programs and refundable portions of tax credits)	*274,359*	*94*	*84*	*50,937*	*40*	*16*
TAX EXPENDITURES SUBTOTAL						
(reductions in taxes)	*16,251*	*6*	*18*	*75,816*	*60*	*82*

Sources: The Urban Institute and The Brookings Institution, 2011.

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

b. Other health includes Maternal and Child Health (Block Grant), children's graduate medical education, lead hazard reduction, abstinence education, children's mental health services, PREP and Abstinence Education, Healthy Start, birth defects/developmental disabilities, emergency medical services for children, and universal newborn hearing.

c. Other education includes Indian education, English language acquisition, safe schools, citizenship education, the Institute for Education Studies, Junior ROTC, Safe Routes to Schools, hurricane education recovery, and domestic schools.

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

e. Other social services includes family preservation and support, community services block grant, juvenile justice, child welfare services and training, independent living, children's research and technical assistance, missing children, and certain children and family services programs.

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

For low-income children, income supports is the largest group at $104 billion, health and other follow at $79 billion each, and education is $28 billion. For higher-income children also, income supports is the largest overarching category at $100 billion (though for higher-income children, this comes more from reductions in taxes rather than income security programs or refundable tax credits). Next-largest is education at $23 billion, with much smaller amounts spent on health ($1.8 billion) and other ($2.4 billion). Spending on children above 200 percent of FPL is much more tightly focused on tax expenditures, whereas spending on lower-income children is spread more broadly across the nine expenditure categories.

What are the 10 largest federal programs and tax provisions benefiting low-income children?

Ten programs and tax provisions account for three-quarters (75 percent) of all federal

expenditures on low-income children in 2009, as shown in table 2. By far the largest program is Medicaid, which alone accounts for 23 percent of all spending on low-income children in 2009. Medicaid spent $68 billion on low-income children in 2009 and represented nearly a quarter of total federal expenditures on low-income children. Medicaid also is the largest program in expenditures on children overall, irrespective of income group (Isaacs et al. 2010).

The remainder of the top 10 include three income security programs (TANF, SSI, and Social Security), two tax programs (the EITC and the child tax credit, or CTC), two nutrition programs (SNAP and child nutrition), and two education programs (Title I and special education). For this analysis, the refundable (outlay) portions of the EITC and CTC are combined to show the total expenditures under the tax provision. Eight of the 10 largest programs supporting low-income children are specifically targeted by income, while two (Social Security and the CTC) are not.

Federal expenditures on higher-income children are more concentrated, with the top 10 programs and provisions accounting for 87 percent of all spending. Also, spending is concentrated within two categories: tax provisions and education. The top 10 programs in terms of total expenditures on higher-income children include five tax programs (dependent exemption, CTC, exclusion of employer-provided health insurance [ESI], EITC, and the dependent care credit), four education programs (Title I, the State Fiscal Stabilization Fund, special education, and school improvement), and one income security program (Social Security).

The two refundable tax credits—the earned income tax credit and the child tax credit—are near the top of both lists. While the EITC is more heavily tilted toward low-income children and the CTC is more heavily tilted toward higher-income children, both are large enough to provide significant benefits for both groups of children. Social Security and two

TABLE 2. Federal Expenditures on Children in 2009, by Family Income and Program, for 10 Largest Programs

Below 200% of FPL			At or Above 200% of FPL		
	Billions ($)	**Per capita ($)**		**Billions ($)**	**Per capita ($)**
1. Medicaid	68	2,226	1. Dependent exemption	28	647
2. Earned income tax credit	36	1,163	2. Child tax credit	26	605
3. Supplemental Nutrition Assistance Program	27	893	3. Exclusion of employer-provided health insurance	16	374
4. Child tax credit	24	781	4. Social Security	12	270
5. Child nutrition	14	467	5. Earned income tax credit	7	174
6. Temporary Assistance for Needy Families	14	448	6. Accelerating Achievement and Ensuring Equity (Title I)	6	133
7. Accelerating Achievement and Ensuring Equity (Title I)	10	331	7. State Fiscal Stabilization Fund	5	113
8. Supplemental Security Income	8	260	8. Education for the handicapped/special education	5	112
9. Education for the handicapped/special education	8	259	9. Dependent care credit	3	81
10. Social Security	8	256	10. School improvement	3	65

Sources: The Urban Institute and The Brookings Institution, 2011.

large education programs (Title I/education for the disadvantaged and special education) also are large enough and evenly enough distributed to make the top 10 list for low-income children and for children whose families have incomes above 200 percent of FPL.

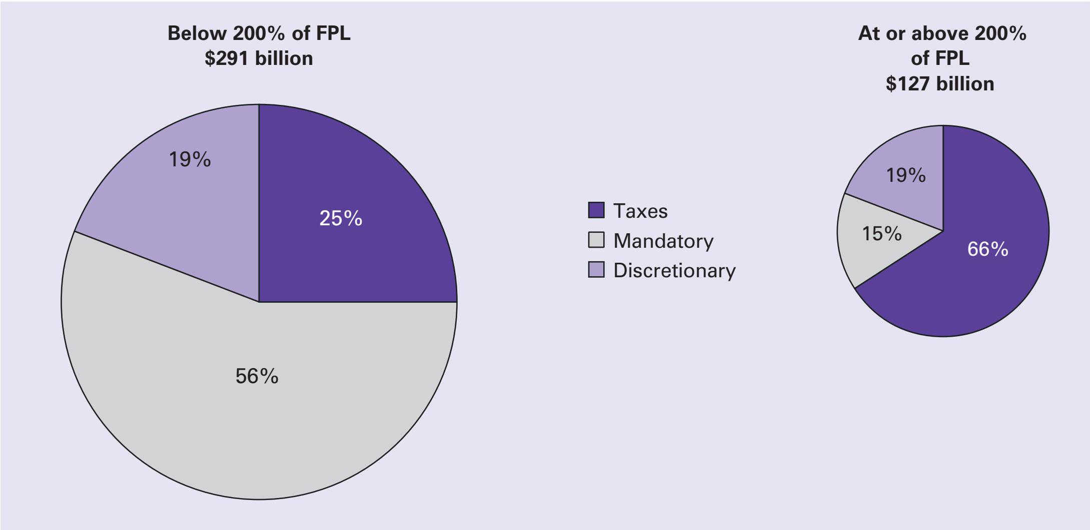
Social Security benefits per capita (averaging benefits across children in an income group, not just those receiving benefits) are roughly equivalent across the two groups: $260 for low-income children versus $270 for their higher-income peers. Social Security benefits are a small proportion of total benefits to low-income children, however, while they are a large proportion of benefits to children from higher-income families.

Five programs appear in the top 10 list for low-income children but not on the list for higher-income children: Medicaid, SNAP, child nutrition, TANF, and SSI. The top 10 list for children from families with incomes above 200 percent of FPL also includes five programs not among the top 10 for low-income children: the dependent exemption, the exclusion of employer contributions for medical premiums and medical care, and three smaller programs providing $5 billion or less in aggregate benefits to these children.

How many federal dollars are spent on low-income children from mandatory, discretionary, and tax programs?

Federal expenditures are funded through three primary methods: mandatory spending, discretionary spending, and tax provisions. Mandatory spending refers to spending on entitlement programs and other programs that are funded automatically based on program rules and that do not require annual appropriations. Discretionary spending is for programs Congress must actively appropriate funding for each year. Tax provisions in this section include tax credits and reductions in tax liabilities. Most, though not all, tax provisions are permanent and act like mandatory programs. Of the $291 billion in federal expenditures on low-income children in 2009, over half (56 percent) comes from spending on mandatory programs such as Medicaid and SNAP (figure 5). A quarter (25 percent) comes from tax credits and tax expenditures, and about a fifth (19 percent)

FIGURE 5. Federal Spending on Children in 2009, by Type and Family Income



Sources: The Urban Institute and The Brookings Institution, 2011.

comes from discretionary spending (e.g., education and housing programs, Head Start, and other social services programs).

Tax credits and tax expenditures, such as the child credit and dependent exemption, account for more than half (66 percent) of federal spending on higher-income children. In contrast, tax provisions account for only a quarter (25 percent) of expenditures on low-income children. The actual dollar amounts spent, however, are roughly the same between the two groups: $72 billion for low-income children and $84 billion for high-income children.

Mandatory spending plays a smaller role for higher-income children than for low-income children (15 and 56 percent, respectively, of expenditures). Shares of discretionary spending are the same (19 percent for both higher- and lower-income children); however, the actual amount of discretionary spending is greater for low-income children.

What was the state and local government contribution to spending on low-income children in 2008?

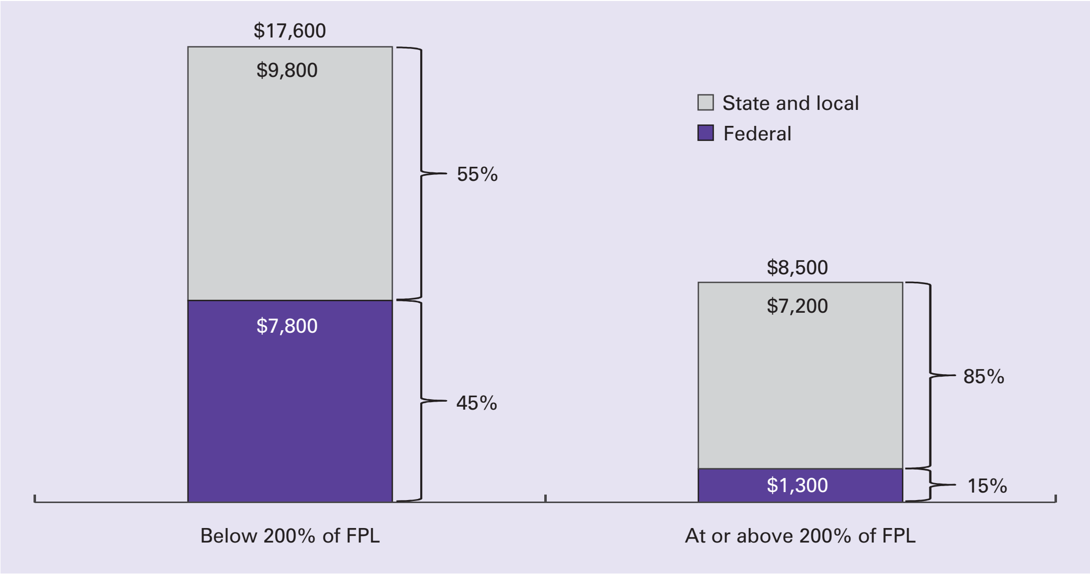
State and local governments spend considerable amounts on children, primarily through public education. In fact, state and local spending made up two-thirds of total spending on children in 2008, making this area of spending particularly important (Isaacs et al. 2011). In this final section, we combine our federal estimates with state and local estimates to provide an important complement to our analysis. These estimates are somewhat cruder than our federal estimates for several reasons. First, our total estimates are for 2008, the most recent year for which the Rockefeller Institute has collected the state and local data used in our analysis.[8] In addition, as detailed in the methods section, our state and local estimates are not as comprehensive as our federal estimates, and the split of education funding across income groups relies on the assumption of roughly equal per capita K–12 spending. Finally, the total estimates in this final section are limited to outlays, excluding tax expenditures, because the state/local spending estimates do not include child-related tax provisions other than the state earned income tax credit.[9] The lack of detailed state information on tax expenditures hampers our ability to fully analyze spending across income groups. We would expect state tax expenditures to mirror federal tax expenditures in being more beneficial to higher-income households.

Low-income and higher-income children differ greatly in the share of public support they receive from federal versus state and local government. While both income groups receive the majority of their public support from states and localities, this barely holds true for low-income children, who receive close to equal shares from the two levels of government. Higher-income children as a group receive 85 percent of their public support from states and localities, while low-income children receive 55 percent of their public support from states and localities. Thus, it is important to consider the role of state and local spending, not just federal spending, when considering public investments in children.

State and local spending on children is much less targeted than federal spending. Our estimates suggest that less than half (48 percent) of state and local spending on children was directed to low-income children in 2008. For comparison, 80 percent of federal outlays on children were spent on low-income children in 2008 (an estimate that excludes tax expenditures for comparability with the state and local estimates). State spending on Medicaid, SCHIP, TANF, child care assistance, child welfare programs, and state EITCs is all heavily tilted toward low-income children, but this is balanced out by state/local spending on education, which is not targeted toward low-income children. If we had been able to include state tax expenditures on children, which are likely to benefit higher-income children more than their lower-income peers, we might have seen an overall tilt away from low-income children.

As shown in figure 6, per capita state and local spending on children in 2008 was roughly

FIGURE 6. *Per Capita Public Spending on Children in 2008, by Source and Family Income*



Sources: The Urban Institute and The Brookings Institution, 2011.

$9,800 for low-income children compared with $7,200 for higher-income children. Federal per capita outlays in 2008 (not including tax expenditures) were roughly $7,800 for low-income children and $1,300 for higher-income children—or six times more for low-income children than for higher-income children. When federal, state, and local spending on children are added together, low-income children receive about $17,600 per capita, or twice as much as the $8,500 received by higher-income children.

Table 3 looks more closely at per capita spending on low- and higher-income children by source and category. Here we use the four overarching categories described above: income supports (minus tax reductions), health, education, and other.[10] Again, this analysis excludes tax expenditures except the refundable portions of tax credits. If we had complete information, we would expect state tax expenditures to benefit higher-income households slightly more. Nonetheless, table 3 underscores the dominant role of state education spending for children of all income levels. State education spending is by far the largest category of expenditures per capita and is the only category for which state spending exceeds federal spending, though states also contribute a substantial portion (almost half) of per capita health spending for low-income children.

State spending per capita on education is fairly evenly divided between low- and higher-income children ($7,700 and $7,100, respectively). The difference in spending is greater in the three other categories: income supports, health, and other. Across the board, low-income children receive higher per capita amounts in every category for federal and state/local spending.

Looking at federal spending per capita, income supports is the largest category of expenditures, at $3,200 per low-income children and $550 per higher-income child. The federal government also spends $2,300 per low-income child in the "other" category (which includes nutrition, housing, social services, and training programs), $1,600 for health programs, and $800 for education. For higher-income children, federal spending is $400 per capita for education, $300 for health, and $50 per capita in the "other" category.

After education spending, states spend the largest amount per capita on health programs

TABLE 3. Per Capita Federal and State/Local Expenditures in 2008 by Category, Excluding Reductions in Taxes

	Income supports[a]	Health	Education	Other[b]	Total
Low-income children					
Federal expenditures	$3,169	$1,586	$792	$2,291	$7,838
State/local expenditures	$432	$1,385	$7,689	$258	$9,764
Total expenditures	$3,602	$2,971	$8,481	$2,549	$17,602
Higher-income children					
Federal expenditures	$552	$305	$389	$51	$1,298
State/local expenditures	$24	$14	$7,108	$22	$7,168
Total expenditures	$576	$319	$7,498	$74	$8,466

Sources: The Urban Institute and the Brookings Institution, 2011.

a. In this table, the income support category includes the refundable portions of tax credits and spending on other income supports but excludes reductions in taxes.

b. Other federal expenditures includes nutrition, housing, social services, and training, as detailed in table 1. Other state and local expenditures include child welfare programs and state expenditures under the Child Care and Development Fund.

for low-income children ($1,400). State spending on income supports and all other spending is, respectively, $400 and $300 per low-income child. For higher-income children, states spend less than $25 per child on income supports, health, or other spending.

One caveat is worth noting: per capita spending is averaged across all children, regardless of whether they receive any benefits. It also ignores differences in spending across children by age, disability status, state of residence, or other dimension.

CONCLUSION

How public resources are spent reveals the policy priorities of the nation. This report highlights the important role federal, state, and local governments play in redirecting scarce resources to children living in low-income families. In 2009, the federal government provided $291 billion in outlays and tax expenditures to low-income children—over twice the $127 billion spent on children living in higher-income families. State and local governments allocated resources more evenly across the income distribution, largely due to spending on public education for all children. The federal government plays a significantly stronger role than state and local governments in targeting resources toward the disadvantaged. Overall, total public spending on children from all levels of government is targeted toward the most economically needy.

This report is the first measure of how targeted federal, state, and local spending is to low-income children. Spending in 2009 (the primary year studied) may not be typical because of the recession and the boost in federal spending on low-income populations under ARRA. However, the size of the low-income population also was higher in 2009 than in earlier years. With only one year of expenditure data, we cannot say whether spending on the low-income population in 2009 is higher or lower than other years *relative to the size of the low-income population.*

It will be important to continue to monitor spending on low-income children in the future. Much of the increased federal spending under ARRA is ending and states are cutting their budgets, yet the effects of the recession are still being felt and child poverty rates continue to rise. The share of children in families with incomes below 200 percent of FPL rose to 44 percent in 2010 (DeNavas-Walt et al. 2011).[11] At the same time, policy debates are focused on cutting federal spending, and recent enactments would hold constant or reduce discretionary spending.

While some deficit-reduction proposals would explicitly exempt assistance to low-income individuals and families, other proposals would make cuts that could severely affect low-income children and their families. Low-income children are particularly vulnerable to cuts in discretionary spending because it is more heavily targeted to low-income populations—and unlike some mandatory spending and tax subsidies, discretionary spending has no built-in growth over time as the economy expands. With more than two-fifths of children living in low-income families, the effects of reduced spending could have long-term consequences for the social and economic health of this country.

APPENDIX

TABLE A-1. Methods of Calculating Multipliers for the 10 Largest Federal Programs in 2009

Program	Multiplier: Below 200% of FPL	Multiplier: At or above 200% of FPL	Method
Medicaid	99.5%	0.5%	Medicaid enrollment numbers for each income category were provided by the Medicaid and CHIP Payment and Access Commission, which generated the numbers using the CHIP Statistical Enrollment Data System, based on administrative data. Based on programmatic knowledge and limited analyses, we assumed that the costs per child were evenly distributed across the income categories.
Child tax credit (CTC)	Refundable portion—87%; reduction in taxes—11%	Refundable portion—13%; reduction in taxes—89%	We used TRIM3 to estimate the percentage of CTC benefits that goes out as cash refunds to households with incomes above and below 200% of FPL, as well as the percentage of CTC benefits that is reductions in tax liabilities for households in each of the two income groups.
Earned income tax credit	Refundable portion—88%; reduction in taxes—31%	Refundable portion—12%; reduction in taxes—69%	We used TRIM3 to estimate the percentage of EITC benefits that goes out as cash refunds to households with incomes above and below 200% of FPL, as well as the percentage of EITC benefits that is reductions in tax liabilities for households in each of the two income groups.
Dependent exemption	19%	81%	Using the Urban-Brookings Tax Policy Center microsimulation model, we estimated the share of 2009 tax units with children above and below 200% of FPL who receive the dependent exemption. We created an approximate income level for the poverty threshold using tax return income adjusted for family size (rather than Census income) and grouped people into poverty levels based on tax units (rather than households).
Supplemental Nutrition Assistance Program (SNAP)	100%	0%	Administrative data tabulations indicate that 98.8 percent of SNAP households with children had income below 150% of FPL. We assumed that virtually all the remaining 1.2 percent of households had incomes below 200% of FPL.
Exclusion of employer-provided health insurance (ESI)	20%	80%	Using the Urban Institute's HIPSM model and the National Bureau of Economic Research's TAXSIM model, we estimated that the children's share of the ESI tax exclusion is 12 percent. Using the Urban-Brookings Tax Policy Center microsimulation model, we estimated that 20 percent of this share benefits low-income children.
Social Security	40%	60%	Income categories are estimated using 2007 Current Population Survey data augmented by TRIM3 to adjust for under- and overreporting of program participation. We used the share of benefits going to children under age 19 for each income group as the income multipliers.
Accelerating Achievement and Ensuring Equity (Title I)	64%	36%	Data from the U.S. Department of Education indicate that at least 64 percent of students in schools receiving Title I services are eligible for free or reduced-price lunches (185% of FPL). Within schools, Title I services are not targeted by income, so we use this lower bound (0.64) as our multiplier.
Child nutrition (CN)	94%	6%	To estimate the percentage of benefits going to participants living in households below 200% of FPL, we used the share of obligations going to those below 185% of FPL for each major CN subprogram (NSLP, SBP, and CACFP) from OMB's *Appendix to the Federal Budget, FY 2011.* We assumed the share of obligations going to those below 185% of FPL for the SFSP were the same as those from the SBP.
Temporary Assistance for Needy Families (TANF)	100%	0%	Based on the income eligibility limits for cash assistance in most states and Government Accountability Office studies about the characteristics of noncash recipients, we assumed virtually all TANF benefits to children go to children below 200% of FPL.

NOTES

1. U.S. Census Bureau, Analysis of Annual Social and Economic Survey, 2010, "Pov 01. Age and Sex of All People, Family Members and Unrelated Individuals Iterated by Income-to-Poverty Ratio and Race," http://www.census.gov/hhes/www/cpstables/032010/pov/toc.htm.
2. The "other races" category includes all other responses not included in the non-Hispanic white, Hispanic, and black race categories, including people who picked more than one race.
3. See Nord et al. (2010). Note that the food insecurity report examined households with children above and below 185 percent of the poverty level, rather than the 200 percent threshold used in our analysis.
4. See Rennane et al. (2011) for further information on the methodology underlying the Kids' Share reports. One difference between this analysis and previous analyses is that estimates of children's spending under the employer-sponsored health insurance have been added to this analysis, drawing on a supplemental analysis described in Rennane et al. (2011).
5. See, for example, Hernandez (2011).
6. TRIM3 is maintained and developed by the Urban Institute under primary funding from the Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation (HHS/ASPE). TRIM3 requires users to input assumptions and/or interpretations about economic behavior and the rules governing federal programs. Therefore, the conclusions in the reports are attributable only to the authors of this report.
7. Rouse and Barrow (2006) report on total K–12 spending per child, not just the state/local portion. Federal funding provides only 7 cents of every dollar spent on state/local education, hence the higher spending in low-income districts.
8. In estimating the allocation across lower- and higher-income children, we assumed that the distribution of funds *within each program* was the same in 2008 as in 2009. Even so, we were able to capture most effects of the difference in economic circumstances between 2008 and 2009 through differences in overall funding levels for each program (e.g., lower spending on Medicaid and SNAP in 2008 than in 2009).
9. Recall that the bulk of the federal earned income tax credit is included in the federal outlay estimates. In other words, the state/local and the federal estimates include most of the earned income tax credits, but neither estimate includes the impact of dependent exemptions or other child-related tax provisions.
10. "Other" federal expenditures refers to spending on nutrition, housing, social services, and training. "Other" state and local expenditures refers to child welfare programs and state expenditures under the Child Care and Development Fund.
11. According to data released by the U.S. Census Bureau in September 2011 (table 6, p. 19).

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The Urban Institute
2100 M Street, NW
Washington, DC 20037
ph 202.833.7200
fax 202.467.5775
http://www.urban.org

BROOKINGS
1775 Massachusetts Avenue, NW
Washington, DC 20036
ph 202.797.6000
fax 202.797.2968
http://www.brookings.edu