RESEARCH REPORT

Spending on Children Ages 8 and Younger

Heather Hahn | Cary Lou | Julia B. Isaacs | Joycelyn Ovalle

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Executive Summary

Understanding public spending on children ages 8 and younger is important because investments in young children can positively influence not only their well-being during childhood but their long term social and economic outcomes as well. This report adds to that understanding by providing baseline information on how much the federal government spent on children ages 8 and younger in 2006 and 2016 and estimating projected spending in 2026. We also detail the programs and purposes funded by federal and state/local investments and the types of federal expenditures that support young children.

How much does the federal government spend on children ages 8 and younger?

- In 2016, federal expenditures on young children totaled $247 billion.
- Total federal expenditures were $6,817 per child age 8 or younger in 2016, with 78 percent spent through outlays (spending on federal programs such as Medicaid and nutrition assistance as well as refundable tax credits) and 22 percent through tax reductions (tax breaks provided to families with children through the dependent exemption, the nonrefundable portions of child-related tax credits like the earned income tax credit [EITC], and other tax provisions).
- Federal outlays on social security, Medicare, and Medicaid for adults were nearly 10 times the total outlays on young children.
- Tax reductions related to young children are dwarfed by other specific tax reductions, such as the capital gains tax and the home mortgage interest deduction.

How have federal investments changed over the past decade, and how will they change in the next decade if we do not alter the present course?

- Both federal outlays and tax reductions for children ages 8 and younger increased in real dollars over the past decade but are projected to decline in the future.

How do federal outlays on children compare with state and local outlays?

- States and localities provide the majority of public outlays for all children, particularly through spending on K–12 education. State and local sources provided 59 percent of total public spending for children ages 8 and younger in 2006 and 73 percent of total public spending for children ages 9 to 18.
What programs and purposes do federal investments support, and how is this changing?

- Ten programs account for more than three-quarters (77 percent) of all federal expenditures on children ages 8 and younger.
- Medicaid is by far the largest program in terms of spending, with $48 billion spent on this age group in 2016.
- The next three largest programs are tax programs: the EITC, child tax credit, and dependent exemption.
- Federal expenditures on children ages 8 and younger increased in nearly all categories over the past decade, with the fastest growth in health and nutrition programs.
- In the next decade, federal expenditures on young children are projected to decline in every category except health.

To what extent are federal and state/local expenditures targeted to low-income children?

- Two-thirds (67 percent) of federal expenditures on children ages 8 and younger in 2016, including tax expenditures, were on means-tested programs (i.e., programs available only to families whose incomes fall below a certain threshold).
- Only 15 percent of state and local expenditures on young children were on means-tested programs in 2006. (State and local expenditure data are not available for 2016.)

What forms do federal expenditures on young children take?

- Most (63 percent) are mandatory outlays, including the portions of tax credits paid out to families as a tax refund (16 percent). In 2016, 15 percent were discretionary outlays and 22 percent were tax reductions.
- The same year, more than half (56 percent) were in-kind payments, such as health, education, housing, and nutrition benefits (see figure 13 on page 21). Tax expenditures, including tax reductions like the dependent exemption and tax outlays like the refundable portion of the EITC, are the next largest at 22 percent and 16 percent, respectively. Cash payments, such as Temporary Assistance for Needy Families cash assistance or Social Security survivors’ benefits, are the least common type of expenditure at just 6 percent.

This report provides information to inform a national discussion about how best to invest future resources to support children ages 8 and younger.
Spending on Children Ages 8 and Younger

The period of child development from birth through age 8 sets the foundation for all later development and shapes the trajectory of a child’s life. Research in neuroscience and social science emphasizes the importance of caring for and protecting young children to ensure better outcomes in adulthood, benefiting the children themselves and society as a whole. This report provides a baseline understanding of federal and state/local investments in children ages 8 and younger to inform discussions about future investments. How much does the federal government invest in young children? What programs and purposes do federal and state/local investments support? How have federal investments changed over the past decade, and how will they change in the next decade under current law?

The Kids’ Share series of annual reports has examined expenditures on children under 18 (see, for example, Isaacs et al. 2017). Special analyses have examined spending on various age groups, most recently examining spending in 2008 and 2011 on children ages 6 to 11, 3 to 5, and 2 and younger (Edelstein et al. 2012). This report expands that research by looking at expenditures on children ages 8 and younger, updated for 2016, the most recent data available, with comparisons to spending in 2006 and projected spending in 2026.

The focus on this group reflects the importance of investing in the youngest children and of this period’s effect on their future success. Research shows that reading proficiently by the end of third grade (approximately age 8) can be a “make-or-break benchmark” in a child’s educational development and later economic success (Fiester 2010). Through third grade, children are only learning to read. In fourth grade, children begin "reading to learn," meaning they are using their reading skills to access knowledge, think critically, and share their learning with others. According to the National Research Council (1998), "academic success, as defined by high school graduation, can be predicted with reasonable accuracy by knowing someone’s reading skill at the end of third grade." High school graduation is, in turn, another make-or-break benchmark for later economic success, with each high school dropout costing society $260,000 in lost earnings, taxes, and productivity (Fiester 2010). The keys to promoting early reading and long-term success include school readiness (ensuring children are healthy, have supportive families, feel safe, and have positive social and emotional skills), access to high-quality teachers, regular school attendance, and avoiding family stressors such as hunger and family or neighborhood violence (Fiester 2013).
Although all children are important, spending on the youngest children results in the greatest return on investment. Early childhood experiences shape young children’s evolving brains and biochemistry, laying a foundation for academic achievements and influencing longer-term socioemotional and health outcomes (Shonkoff 2011; Shonkoff and Phillips 2000). Family income during early childhood affects school readiness and school achievement as well as adult outcomes, including earnings and others measures of labor market success, and health outcomes (Duncan, Ziol-Guest, and Kalil 2010). Further, family economic conditions during early childhood influence children’s skills more than family income during adolescence (Brooks-Gunn and Duncan 1997).

Unfortunately, many young children grow up in poverty and experience economic hardship and family and personal stress. Poverty rates for children are higher in young childhood than in adolescence, and the youngest years are when poverty seems to have the strongest negative effects. More than one in five children (21 percent) ages 8 and younger were living in families with income at or below the federal poverty level in 2015. Poverty rates were lower among older age groups: 18 percent for children ages 9 to 18, 12 percent for adults ages 19 to 64, and almost 9 percent for adults ages 65 and older.¹

Rigorous research has demonstrated that income supplements, such as a child tax credit, and direct investments in health care, nutrition assistance, and early education and child care can mitigate the effects of childhood poverty and have positive effects on children’s educational outcomes and their later adult health and earnings outcomes. There is also evidence that early investments are less costly than later remediation:

- Expanded eligibility for Medicaid and the Children’s Health Insurance Program (CHIP) not only improves children’s health insurance coverage, access to care and services, and health outcomes (Howell and Kenney 2012), it also results in long-term life improvements. Children who gained access to Medicaid and state Children’s Health Insurance Programs in the 1980s and 1990s paid more in cumulative taxes, collected less in EITC payments, and had higher wages by age 28 (Brown, Kowalski, and Lurie 2015).

- Children who receive adequate nutrition are healthier and more emotionally stable, do better in school, and are more likely to graduate from high school (Carlson et al. 2016; Cook and Frank 2008; Frongillo, Jyoti, and Jones 2006). Children who grow up in areas with access to nutrition assistance have reduced incidence of obesity, high blood pressure, heart disease, and diabetes as adults. Girls have better employment, income, poverty status, high school graduation, and program participation outcomes as adults (Hoynes, Schanzenbach, and Almond 2016).
The EITC encourages employment, reduces poverty, helps families meet child care expenses and other basic needs, boosts financial assets and savings, improves children's achievement in school, increases college enrollment, and likely increases children's earnings as adults (Charite, Dutta-Gupta, and Marr 2012; Marr et al. 2015).2

Children who attend high-quality child care centers have better math, language, social, and behavioral skills than those in lower quality settings (Peisner-Feinberg et al. 1999).

Understanding the benefits of these investments provides context for our analysis of public expenditures on young children in the US. This report presents our findings in three parts. We begin with analyses of how much is spent on children ages 8 and younger, including comparisons to expenditures on other federal priorities, as well as analyses of past and projected trends. We then examine in greater detail where these investments are made, including which programs and purposes receive the greatest investments and how investments have changed and will continue to change over time. Finally, we examine how funds are spent, including whether expenditures are means-tested to target low-income children and whether expenditures take the form of cash payments, in-kind supports, tax reductions, or tax outlays.
To estimate government expenditures on children ages 8 and younger, we built on the methods and estimates developed for the Urban Institute’s previous and ongoing work on spending on children. Our basic methodology has three steps: 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 for fiscal year 2018 (OMB 2017a) and prior years, drawing on its Appendix volume for information on spending and the Analytical Perspectives volume for tax expenditures. Finally, we estimate the share of each program’s expenditures that directly benefits children. This report required the additional step of calculating the share of spending on children ages 8 and younger. Further details regarding methods are available in the Data Appendix to Kids’ Share 2017 (Ovalle et al. 2017). This report does not directly address whether government expenditures on children ages 8 and younger are the right size or invested in the right places. Rather, we provide the detailed information necessary for an informed debate about our national priorities for investing in children.

Glossary

- **Children**: People ages 18 and younger.
- **Outlays**: Direct spending from federal programs as well as the portions of tax credits paid out to families as a tax refund.
- **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.
- **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 for families with children, or (3) require that families have a child to qualify.

*Our estimates include spending on 18-year-olds in many federal programs. However, as detailed in the accompanying Data Appendix to Kids’ Share 2017 (Ovalle et al. 2017), some programs such as Medicaid and Social Security define children as people 17 and younger instead of 18 and younger, and we do not include spending on 18-year-olds for such programs.*
Part I: How Much Do We Spend on Children Ages 8 and Younger?

In 2016, 36.2 million US children were ages 8 and younger. Federal expenditures on these children totaled $247 billion in fiscal year 2016, or $6,817 per child (figure 1). This includes $192 billion ($5,298 per child) in outlays (i.e., spending on federal programs such as Medicaid and nutrition assistance, as well as refundable tax credits) and $55 billion ($1,519 per child) through tax reductions (i.e., tax breaks provided to families with children through the dependent exemption, the nonrefundable portions of child-related tax credits like the EITC, and other tax provisions).

FIGURE 1
Federal Expenditures on Children Ages 8 and Younger, including Outlays and Tax Reductions, Totaled $247 Billion in 2016

How Do Federal Outlays for Young Children Compare with Other Federal Outlays?

To put the $247 billion spent on young children in context, consider that spending as a share of total federal expenditures. The $192 billion in federal outlays on children ages 8 and younger represents just 5 percent of total federal outlays (figure 2), less than annual spending on interest on the federal debt. The federal government spends nearly 10 times as much on Social Security, Medicare, and Medicaid for adults (46 percent of federal outlays) and 3 times as much on defense (15 percent) as it spends on young children.

We define expenditures on children as funds going to programs where (1) benefits or services are provided directly to children (e.g., K–12 education), (2) benefit levels increase for families with children (e.g., the Supplemental Nutrition Assistance Program, or SNAP, formerly called food stamps), or (3) a family must have a child to qualify for any benefits (e.g., the child tax credit). Therefore, some spending that may indirectly benefit children, such as unemployment insurance and defense, is not counted because it does not directly rely on the presence of a child. For federal outlays on Social Security, we count the Social Security benefits that go to the children of disabled or deceased parents, but we do not count Social Security benefits that go to their grandparents.

**FIGURE 2**
Federal Outlays on Social Security, Medicare, and Medicaid for Adults Are Nearly 10 Times Larger than Total Outlays on Children Ages 8 and Younger

*Total federal outlays in 2016*

How Do Federal Tax Reductions for Young Children Compare with Other Tax Reductions?

For additional context, the $55 billion in tax reductions for children ages 8 and younger represents less than 4 percent of the total $1.47 trillion in federal tax reductions in 2016.\textsuperscript{3} Tax reductions for the youngest children were far less than the $245 billion in tax reductions for major housing provisions, such as the mortgage interest deduction ($61 billion) or the $189 billion in tax reductions from the exclusion of employer-sponsored health insurance for adults (figure 3). Tax reductions for young children were also less than half that of several other tax provisions, such as the net exclusion of pension contributions and earnings, capital gains, and the deferral of income from controlled foreign corporations.

\textbf{FIGURE 3}

\textbf{Child-Related Tax Reductions Are Dwarfed by Other Specific Tax Expenditures}

Federal expenditures in 2016 on selected tax provisions (billions of 2016 dollars)


\textbf{Notes:} Numbers may not sum to totals because of rounding. Capital gains tax estimate excludes agriculture, timber, iron ore, and coal. Deferral of income from controlled foreign corporations refers to the normal tax method.
What Are the Trends in Federal Expenditures for Children Over Time?

Federal expenditures, per child, on children ages 8 and younger were larger in 2016 than in 2006 for both outlays and tax reductions, even after adjusting for inflation (figure 4). But comparing just these two points in time masks the growth in federal expenditures between 2006 and 2010 in response to the recession and the subsequent decline.

In the next decade, 2016 to 2026, total expenditures, including outlays and tax reductions, are projected to continue declining. These projections, also shown in figure 4, follow the assumptions of the Congressional Budget Office’s baseline projections, supplemented by other sources, and our own assumptions about the share of individual program spending allocated to young children. As explained in the appendix, the Congressional Budget Office (CBO) baseline projections generally assume a continuation of current laws; they assume that appropriations for discretionary spending will be constrained by caps in the Budget Control Act of 2011 and will rise with inflation in subsequent years. In the past decade, net growth in per child federal expenditures on young children was 27 percent. Over the next decade, per child federal expenditures for this age group are projected to shrink 0.6 percent.

Figure 4 separates total expenditures into outlays and tax reductions and shows that the net growth in outlays from 2006 to 2016 was 35 percent (from $3,919 per child to $5,298). However, outlays are projected to decline by 0.5 percent to $5,269 per child over the next decade. Federal expenditures on tax reductions grew by 5 percent (from $1,445 per child to $1,519) but are projected to shrink by 0.3 percent to $1,515 per child.

How Do Federal Outlays Compare with State and Local Outlays?

States and localities provide the majority (59 percent) of public outlays for children ages 8 and younger, particularly through spending on education and child care (figure 5) and 73 percent of public outlays for children ages 9 to 18 (not shown). States and localities spent $4,707 per young child in 2006 on education and child care and an additional $920 per child for other purposes. That same year, the federal government spent $835 per young child on education and child care and $3,085 per child for other purposes. State and local spending data are not available for 2016, but the general patterns observed in 2006 have been consistent over time (Edelstein et al. 2016).
FIGURE 4

Per Child Federal Expenditures on Young Children Increased in the Past Decade but Are Projected to Decline in the Future

*Federal expenditures, per child, on children ages 8 and younger in 2006, 2016, and 2026 (2016 dollars)*


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

FIGURE 5

State and Local Outlays, Primarily for Education, Are the Largest Source of Public Spending on Young Children

*Total federal and state/local outlays on children in 2006*

Part II: Where Do We Spend Federal Funds on Young Children?

More than three-quarters (77 percent) of all federal expenditures on children ages 8 and younger go to the 10 largest programs. Medicaid is by far the single largest program in terms of spending on children ages 8 and younger, and expenditures on this age group were $48 billion in 2016. The next three largest programs are tax programs: the EITC, child tax credit, and dependent exemption. The other programs in the top 10 are SNAP and other child nutrition programs, the tax exclusion of employer contributions for health insurance, Head Start, the Temporary Assistance for Needy Families (TANF) block grant, and Title I education for the disadvantaged. Figure 6 identifies the 10 largest programs and their expenditures in 2016.

**FIGURE 6**

Medicaid Leads the List of Top 10 Programs Spending on Children Ages 8 and Younger

*Federal expenditures on children ages 8 and younger in 2016 (billions of 2016 dollars)*

<table>
<thead>
<tr>
<th>Program</th>
<th>Outlays</th>
<th>Tax Reductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid</td>
<td>48</td>
<td>4</td>
</tr>
<tr>
<td>EITC</td>
<td>28</td>
<td>4</td>
</tr>
<tr>
<td>CTC</td>
<td>11</td>
<td>16</td>
</tr>
<tr>
<td>Dependent exemption</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>SNAP</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Child nutrition</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Employer-sponsored insurance</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Head Start</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>TANF</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Education for the Disadvantaged (Title I, Part A)</td>
<td>7</td>
<td></td>
</tr>
</tbody>
</table>


**Note:** EITC = earned income tax credit, CTC = child tax credit, SNAP = Supplemental Nutrition Assistance Program, TANF = Temporary Assistance for Needy Families. Child nutrition spending includes the National School Lunch Program, the School Breakfast Program, the Child and Adult Care Food Program, the Summer Food Service Program, and the Special Milk Program.
How Have Expenditures on the 10 Largest Programs Changed in the Past Decade?

In both 2006 and 2016, the same 10 programs had the largest expenditures on children ages 8 and younger, although the order of the list changed. As health care costs for all Americans grew faster than inflation, and as more eligible children enrolled in Medicaid, Medicaid expenditures grew sharply to become the largest source of spending on young children. Spending on the child tax credit fell from largest to third largest, as both total and per child spending declined. Figure 7 shows how expenditures for each of the 10 largest programs changed, and details on changes in federal expenditures for all major programs for children are included in table 1 on page 14.

**FIGURE 7**
Federal Expenditures on Medicaid Grew Sharply while Expenditures on the Child Tax Credit Decreased

*Federal expenditures on children ages 8 and younger, 2006 and 2016 (billions of 2016 dollars)*


Note: Child nutrition spending includes the National School Lunch Program, the School Breakfast Program, the Child and Adult Care Food Program, the Summer Food Service Program, and the Special Milk Program.
How Much Does the Federal Government Spend per Young Child on Health, Education, Taxes, and Other Categories?

Federal expenditures on children ages 8 and younger mostly go toward health and tax programs (figure 8). In 2016, federal expenditures per child in this group averaged $1,637 for health programs, $1,519 for tax reductions, and $1,084 for tax outlays (the refundable portion of tax credits). The next largest categories were nutrition ($979 per child), education and child care ($780 per child), and income security programs ($569 per child). The smallest expenditures per child were on housing ($145 per child), social services ($104 per child), and training ($0 per child and therefore not shown).

FIGURE 8
Federal Expenditures on Younger Children Are Primarily on Health and Tax Programs
Expenditures, per child, on children ages 8 and younger in 2016 (2016 dollars)

How Are Expenditures per Young Child on Health, Education, Taxes, and Other Categories Changing?

In the past decade, federal expenditures per child on children ages 8 and younger grew more quickly for health and nutrition programs than for programs in other areas, but expenditures in almost all areas are projected to decline over the next decade (figure 9 and table 1). After nearly doubling between 2006 and 2016, health spending is the only area projected to see continued growth (albeit at a slower rate). In contrast, between 2006 and 2016, education and child care was the only category where federal expenditures declined. Spending per child is projected to be even lower in 2026 than in 2006 for housing, social services, and education and child care programs. These projections assume a continuation of current policies and do not reflect any proposals for spending cuts (such as those proposed in the administration’s budget).

FIGURE 9
Nearly All Categories of Federal Expenditures on Children Ages 8 and Younger Grew in the Past Decade but Are Projected to Decline in the Future
*Federal expenditures, per child, in 2006, 2016, and 2026 (2016 dollars)*

TABLE 1
Federal Expenditures on Children Ages 8 and Younger in 2006 and 2016 by Category and Program

<table>
<thead>
<tr>
<th>Category</th>
<th>2006</th>
<th>2016</th>
<th>Change in spending (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Health</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Health</td>
<td>31.5</td>
<td>59.2</td>
<td>88</td>
</tr>
<tr>
<td>Medicaid</td>
<td>26.6</td>
<td>48.4</td>
<td>82</td>
</tr>
<tr>
<td>CHIP</td>
<td>2.1</td>
<td>6.1</td>
<td>186</td>
</tr>
<tr>
<td>Vaccines for children</td>
<td>1.5</td>
<td>3.2</td>
<td>118</td>
</tr>
<tr>
<td>Immunization</td>
<td>0.4</td>
<td>0.5</td>
<td>22</td>
</tr>
<tr>
<td>Other health</td>
<td>0.8</td>
<td>1.0</td>
<td>21</td>
</tr>
<tr>
<td><strong>Nutrition</strong></td>
<td></td>
<td></td>
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<tr>
<td>Nutrition</td>
<td>23.0</td>
<td>35.4</td>
<td>54</td>
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<tr>
<td>SNAP</td>
<td>11.9</td>
<td>19.4</td>
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<tr>
<td>Child nutrition</td>
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<td>10.7</td>
<td>79</td>
</tr>
<tr>
<td>Special supplemental food (WIC)</td>
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<td>5.3</td>
<td>3</td>
</tr>
<tr>
<td><strong>Education and child care</strong></td>
<td>29.7</td>
<td>28.2</td>
<td>-5</td>
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<td>Education and child care (including Early Head Start)</td>
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<td>8.7</td>
<td>8</td>
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<td>Education for the Disadvantaged (Title I, Part A)</td>
<td>6.8</td>
<td>6.6</td>
<td>-2</td>
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<td>Child Care and Development Fund</td>
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<td>4.8</td>
<td>-14</td>
</tr>
<tr>
<td>Special Education/IDEA</td>
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<td>4.4</td>
<td>-11</td>
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<tr>
<td>School improvement</td>
<td>2.1</td>
<td>1.3</td>
<td>-38</td>
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<tr>
<td>Other education</td>
<td>2.3</td>
<td>2.4</td>
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<tr>
<td>Training programs</td>
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<td><strong>Income security</strong></td>
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<tr>
<td>Temporary Assistance for Needy Families</td>
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<td>7.3</td>
<td>-14</td>
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<tr>
<td>Supplemental Security Income</td>
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<td>29</td>
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<td>Social Security</td>
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<td>Veterans compensation (disability compensation)</td>
<td>0.6</td>
<td>3.4</td>
<td>472</td>
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<tr>
<td>Net child support enforcement</td>
<td>1.6</td>
<td>1.6</td>
<td>0</td>
</tr>
<tr>
<td>Other income security</td>
<td>0.1</td>
<td>0.6</td>
<td>386</td>
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<tr>
<td><strong>Housing</strong></td>
<td>5.1</td>
<td>5.2</td>
<td>3</td>
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<tr>
<td>Section 8 low-income housing assistance</td>
<td>4.1</td>
<td>4.3</td>
<td>5</td>
</tr>
<tr>
<td>Low-rent public housing</td>
<td>0.6</td>
<td>0.6</td>
<td>8</td>
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<tr>
<td>Other housing</td>
<td>0.4</td>
<td>0.3</td>
<td>-21</td>
</tr>
<tr>
<td><strong>Social services</strong></td>
<td>3.5</td>
<td>3.8</td>
<td>9</td>
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<tr>
<td>Foster care</td>
<td>1.2</td>
<td>1.7</td>
<td>46</td>
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<tr>
<td>Adoption assistance</td>
<td>0.7</td>
<td>0.8</td>
<td>18</td>
</tr>
<tr>
<td>Other social services</td>
<td>1.6</td>
<td>1.2</td>
<td>-22</td>
</tr>
<tr>
<td><strong>Refundable portion of tax credits</strong></td>
<td>29.1</td>
<td>39.2</td>
<td>35</td>
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<tr>
<td>Earned income tax credit</td>
<td>19.7</td>
<td>28.1</td>
<td>43</td>
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<tr>
<td>Child tax credit</td>
<td>9.4</td>
<td>10.7</td>
<td>14</td>
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<tr>
<td>Other refundable tax credits</td>
<td>0.0</td>
<td>0.4</td>
<td>0</td>
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<tr>
<td><strong>Reductions in taxes</strong></td>
<td>51.4</td>
<td>55.0</td>
<td>7</td>
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<tr>
<td>Dependent exemption</td>
<td>16.1</td>
<td>19.4</td>
<td>20</td>
</tr>
<tr>
<td>Child tax credit (nonrefundable portion)</td>
<td>18.4</td>
<td>15.6</td>
<td>-15</td>
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<tr>
<td>Exclusion for employer-sponsored health insurance</td>
<td>9.0</td>
<td>10.4</td>
<td>15</td>
</tr>
<tr>
<td>Earned income tax credit (nonrefundable portion)</td>
<td>2.7</td>
<td>3.6</td>
<td>32</td>
</tr>
<tr>
<td>Dependent care credit</td>
<td>3.1</td>
<td>3.5</td>
<td>15</td>
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<tr>
<td>Exclusion of employer-provided child care</td>
<td>0.7</td>
<td>0.8</td>
<td>16</td>
</tr>
<tr>
<td>Other tax reductions</td>
<td>1.3</td>
<td>1.6</td>
<td>18</td>
</tr>
<tr>
<td><strong>Total expenditures on children ages 8 and younger</strong> (outlays and reductions in taxes)</td>
<td>190.9</td>
<td>246.6</td>
<td>29</td>
</tr>
</tbody>
</table>
Below, we highlight the changes from 2006 to 2016 for each category of federal expenditures on children ages 8 and younger, as detailed in table 1. For context, the population of young children grew from 35.6 million in 2006 to 36.2 million in 2016 (declining from 11.9 to 11.2 percent of the total US population).

- **Health.** Federal health expenditures grew by 88 percent, from $31.5 billion in 2006 to $59.2 billion in 2016. Although Medicaid spends the most overall among health programs ($48.4 billion in 2016), the largest increase in spending occurred in CHIP, which grew 186 percent.

### Table 1: Outlays and Tax Provisions on Children

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2016</th>
<th>Change in spending (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outlays subtotal</strong></td>
<td>139.5</td>
<td>191.7</td>
<td>37</td>
</tr>
<tr>
<td>(all spending programs and refundable portions of tax credits)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Tax provisions subtotal</strong></td>
<td>80.5</td>
<td>94.2</td>
<td>17</td>
</tr>
<tr>
<td>(reductions in taxes and spending on refundable credits)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


**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. **Other health** covers 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, emergency medical services for children, universal newborn hearing, 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 program. The nutrition category also included the **Commodity Supplemental Food** program in 2006, which spent $10.2 million on children ages 9 to 18 but spent nothing on young children. **Net child support enforcement** consists of gross child support enforcement minus the federal share of child support collections. In 2006, federal expenditures on gross child support enforcement for young children was $2.2 billion, and young children’s share of federal child support collections was $0.6 billion (both 2016 dollars). In 2016, these figures were $1.9 billion and $0.3 billion, respectively. **Other income security** includes Railroad Retirement, survivors’ compensation, survivors’ pensions, and veterans pensions. **Other education** includes dependents’ schools abroad, Safe Routes to Schools, Impact Aid, career and technical education, Indian education, English language acquisition, domestic schools, the Institute of Education Sciences, innovation and improvement, safe schools and citizenship education, and Junior ROTC. The education and child care category also included the **hurricane education recovery** program in 2006, which had $1.2 billion in spending on children ages 9 to 18 but spent nothing on younger children. **Training** includes Job Corps, Workforce Investment Act Youth Formula Grants, Youth Offender Grants, and YouthBuild Grants. **Other housing** includes rental housing assistance, rent supplement, and low-income home energy assistance. **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 refundable tax credits** include outlays from cost-sharing reductions and the refundable portion of Qualified Zone Academy Bonds, Qualified School Construction Bonds, and premium tax credits for health insurance bought on the exchange. **Other tax expenditures** include 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 Social Security disability benefits, exclusion for public assistance benefits, exclusion for veterans death benefits and disability compensation, and the nonrefundable portion of Qualified Zone Academy Bonds, Qualified School Construction Bonds, and the premium tax credit for health insurance bought on the exchange.
from $2.1 billion to $6.1 billion. A major factor in the growth of health spending on young children is that more eligible children have enrolled in Medicaid and CHIP as a result of extensive efforts to improve access. In 2015, 93 percent of children eligible for Medicaid or CHIP participated in those programs (Kenney et al. 2017).

**Nutrition.** Federal expenditures on nutrition programs grew by 54 percent, from $23 billion in 2006 to $35.4 billion in 2016. The largest nutrition program is SNAP, which spent $19.4 billion on children ages 8 and younger in 2016, 64 percent more than the $11.9 billion it spent in 2006. The largest growth among nutrition programs was a 79 percent increase in spending on child nutrition, which includes the National School Lunch and Breakfast programs, the Summer Food Service Program, and the Special Milk Program. SNAP and these child nutrition programs are all means-tested programs that increased enrollment during the recession in response to greater need. Although SNAP spending in 2016 was higher than in 2006, it has been in decline since 2010. Child nutrition program expenditures, however, have continued to grow.

**Education.** Education and child care expenditures on young children declined by $1.5 billion (5 percent) between 2006 and 2016 as spending declined for nearly every individual education and child care program. Head Start, the largest education program for children 8 and younger, was an exception, and its spending grew by $700 million (8 percent). The largest decline was in spending on school improvement programs, which decreased 38 percent from $2.1 billion to $1.3 billion.

**Income security.** Federal expenditures on income security programs for young children increased by 17 percent, from $17.7 billion in 2006 to $20.6 billion in 2016. Driving this increase was a 472 percent increase in veterans benefits, from $600 million to $3.4 billion, as conflicts in the Middle East have resulted in more disabled veterans or deceased service members with young children. This increase and a $1 billion increase in Supplemental Security Income for low-income children with disabilities were offset somewhat by decreases of $1.3 billion in spending on TANF cash assistance and of $100 million in spending on Social Security survivors’ and dependents’ benefits.

**Housing.** Federal expenditures on housing programs for children ages 8 and younger changed only slightly, increasing 3 percent from $5.1 billion in 2006 to $5.2 billion in 2016. Slight increases in spending on Section 8 low-income housing assistance and low-rent public housing were partially offset by declines in spending on smaller programs for rental housing assistance and low-income home energy assistance.
- **Social services.** Federal expenditures on social services for young children increased by 9 percent, from $3.5 billion in 2006 to $3.8 billion in 2016. The largest increase was in foster care assistance, which grew 46 percent from $1.2 billion to $1.7 billion. Spending on adoption assistance also grew by $100 million (18 percent), but expenditures on other social services, such as the Social Services Block Grant, the Community Services Block Grant, and child welfare services, decreased by $400 million (22 percent).

- **Tax outlays (refundable portion of tax credits).** Federal expenditures on the refundable portion of tax credits for children ages 8 and younger increased by 35 percent, from $29.1 billion in 2006 to $39.2 billion in 2016. The greatest expenditure increase was on outlays for the EITC, which increased 43 percent from $19.7 billion to $28.1 billion. Child tax credit outlays also grew from $9.4 billion to $10.7 billion, a 14 percent increase.

- **Tax reductions.** Federal expenditures on tax reductions for children ages 8 and younger increased by 7 percent, from $51.4 billion in 2006 to $55.0 billion in 2016. The greatest expenditure increase in dollars was on the dependent exemption, which grew 20 percent from $16.1 billion to $19.4 billion. The greatest percentage increase was in expenditures on the nonrefundable portion of the EITC, which grew 32 percent from $2.7 billion to $3.6 billion. Other increases occurred in expenditures on the exclusion for employer-sponsored health insurance ($1.4 billion), the dependent care credit ($400 million), the exclusion of employer-provided child care ($100 million), and other tax provisions ($300 million). Notably, expenditures on the nonrefundable portion of the child tax credit decreased 15 percent from $18.4 billion to $15.6 billion.
Part III: How Do We Spend Federal Funds on Young Children?

How Targeted Are Federal Expenditures to Young Children in Low-Income Families?

Some federal expenditures support programs available to all children regardless of family income, such as the dependent exemption and Social Security survivors’ and dependents’ benefits. Other expenditures are targeted to children in low-income families through means-tested programs available only to families whose incomes fall below a certain threshold. In 2016, 67 percent of federal expenditures, including tax expenditures, on children ages 8 and younger were on means-tested programs (figure 10). Means-tested programs have grown as a share of federal expenditures for young children over the past decade, and the share is projected to hold steady through 2026.4

FIGURE 10
Federal Expenditures on Means-Tested Programs for Children Ages 8 and Younger Grew in the Past Decade and Is Projected to Hold Steady in the Future

Share of total federal expenditures on young children in 2006, 2016, and 2026

How Does Targeting of Federal Expenditures for Young Children Compare with Targeting of State and Local Expenditures?

Federal expenditures are more targeted to low-income children than state and local expenditures are (figure 11). Among federal expenditures on children ages 8 and younger in 2006, 61 percent of expenditures were directed to means-tested programs. Only 15 percent of state and local expenditures in 2006 were on means-tested programs (e.g., Medicaid) as opposed to universal programs (e.g., public schools). Because most public spending on children ages 8 and younger comes from states and localities, only 37 percent of total public expenditures in 2006 were on means-tested programs. State and local expenditure data are not available for 2016, but federal spending for all children 18 and younger has consistently been more targeted than state and local spending.

FIGURE 11
Federal Expenditures for Children Ages 8 and Younger Has Been More Targeted than State and Local Expenditures
Share of federal, state/local, and total expenditures in 2006 on means-tested programs for young children

What Share of Federal Expenditures on Children Are Mandatory, Discretionary, or Tax Expenditures?

Federal expenditures on children come in many forms. Discretionary outlays are direct spending on programs, and policymakers must decide each year how much money to provide through annual appropriations acts. In 2016, 15 percent of federal expenditures on children ages 8 and younger were discretionary outlays (figure 12). Mandatory outlays, in contrast, are governed by programmatic rules that determine the amount spent on a program each year. For example, Medicaid spending is determined by the services used and other programmatic rules, rather than a deliberate decision by Congress. One special type of mandatory outlay is the portion of tax credits paid out to families as a tax refund. In 2016, 16 percent of federal expenditures on young children was through this type of outlay, and an additional 46 percent was on other mandatory outlays. Tax reductions are another type of federal expenditure. These are the reductions in families' tax liabilities resulting from tax provisions, including the portions of tax credits not paid out to families as tax refunds. In 2016, tax reductions made up 22 percent of federal expenditures on young children.

**FIGURE 12**

*Most Expenditures on Children Ages 8 and Younger Are Mandatory Outlays and Refundable Tax Credits*

*Share of total federal expenditures on children in 2016*

- Refundable portion of tax credits: 16%
- Mandatory: 46%
- Tax reductions: 22%
- Discretionary: 15%


Note: Percentages may not sum to 100 because of rounding.
How Do Young Children Receive Federal Expenditures?

More than half (56 percent) of federal expenditures on children ages 8 and younger in 2016 were in-kind payments, such as health, education, housing, and nutrition benefits (figure 13). Tax expenditures, including tax reductions like the dependent exemption and tax outlays like the refundable portion of the EITC, are the next largest types of federal expenditure for this age group at 22 percent and 16 percent, respectively. Cash payments, such as TANF cash assistance or Social Security survivors’ benefits, are the least common expenditure and make up just 6 percent of spending on young children. Relative use of each type of expenditure has remained consistent over time, and this pattern is projected to continue into 2026.

**FIGURE 13**

*More Than Half of Expenditures on Children Ages 8 and Younger Are Through In-Kind Payments*

*Share of total federal expenditures on children in 2016*

- In-kind payments: 56%
- Tax reductions: 22%
- Refundable portion of tax credits: 16%
- Cash payments: 6%

Conclusion

This report answers several questions about federal, state, and local investments in children ages 8 and younger. It addresses how much the federal government spends and where and how those funds are spent.

Outlays for young children make up just 5 percent of total federal outlays, and tax reductions for this age group are just 4 percent of total federal tax reductions. The $247 billion invested in young children in 2016 consisted mostly of health spending (particularly on Medicaid), which has grown dramatically in the past decade and is projected to continue growing (albeit at a slower rate) in the next. Tax programs are another major component of federal expenditures. Three of the four largest programs for this age group are tax programs, and tax expenditures are the only expenditure category other than health projected to grow in the near future. Assuming a continuation of current policies, expenditures in all other categories are projected to decline through 2026. Over the past decade, the greatest expenditure decreases were in education and child care, and spending in these areas is projected to continue falling.

Although this report focuses primarily on federal expenditures, states and localities provide the majority of funding for young children, mainly through spending on public education. However, state and local expenditures are much less targeted than federal expenditures. This report provides information to inform a national discussion about how best to invest future resources to support children during this critical time in their development.
Appendix A. Methods

To estimate government expenditures on children ages 8 and younger, we built on the methods and estimates developed for the Urban Institute’s previous and ongoing work on spending on children. Our basic methodology has three steps: 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 for fiscal year 2018 (OMB 2017a) and prior years, drawing on its Appendix volume for information on spending and the Analytical Perspectives volume for tax expenditures. Finally, we estimate the share of each program’s spending that directly benefits children.

This report required the additional step of calculating the share of expenditures on children ages 8 and younger. These methodological steps are described below. Further details regarding methods are available in the Data Appendix to Kids’ Share 2017 (Ovalle et al. 2017).

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 categorized as going to a particular recipient group. This task is relatively straightforward for programs that spend directly on children, such as elementary education. 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? Therefore, our calculations require 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 a portion of benefits are delivered directly to children (e.g., SSI payments for disabled children, Medicaid services for children);

- family benefit levels increase for households with children (e.g., SNAP, low-rent public housing); or
a family must have children to qualify for any benefits (e.g., TANF, the child tax credit, the dependent exemption).

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 indirectly 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 benefit, they do not meet the criteria. Additionally, we do not include programs that provide benefits to the general population, such as roads, communications, national parks, and environmental protection.

In reporting federal expenditures on children, our most comprehensive measure includes tax expenditures (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 outlays from programs such as Medicaid, child nutrition programs, and education programs. In other areas, we focus solely on federal 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) and 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 expenditures for the nonrefundable portion adheres to standard budget accounting practices.

Collecting Expenditure Data

Expenditure data on program outlays largely come from the appendix to the budget of the United States government for fiscal year 2018 (OMB 2017a) and budgets from past years. The Analytical Perspectives volume of the budget provides tax expenditure data. We obtain expenditure data for programs not included in the appendix from the relevant agencies' budgetary documents or from agency representatives. In this report, all budget numbers represent fiscal years, and we have expressed them in 2016 dollars unless otherwise noted.
Calculating the Share of Program Spending on Children

Some programs spend exclusively on children, and others benefit the general population regardless of age. We calculate the share of each program’s 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 children and adults (e.g., Medicaid), we determine the percentage of program expenditures that go to children.
- For programs that provide benefits only to households with children, where the benefit amount is determined by the number of children (e.g., child tax credit, dependent exemption), we assume 100 percent of program expenditures go to children.
- For programs that provide families benefits without any delineation between shares for parents and for children (e.g., TANF and SNAP), we generally estimate the children’s share based on the number of children and adults in the family, assuming equal benefits per capita within the family.

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. In some cases, we search government agency websites or contact federal agency staff directly to obtain program participation information.

Calculating the Share of Program Spending on Children Ages 8 and Younger

We used a variety of specific methods to calculate the share of program spending on young children, depending on the type of program and the level of detail available in the program data. When available, we used program data to estimate the share of program funding spent on young children as a percentage of estimated spending on children ages 18 and younger. When these data were not
available, we obtained specialized data tabulations from agency staff or Urban Institute experts. When data were sufficiently detailed, we used total program dollars to determine the share of expenditures for children ages 8 and younger. In some cases (e.g., TANF), we had information only on program recipients who were ages 8 and younger and could not adjust for possible differences in the size of benefits going to children of different ages. Finally, for some smaller programs without data on spending or recipients by age, we simply assumed that spending on children was distributed equally across age groups. The Data Appendix to Kids’ Share 2017 (Ovalle et al. 2017) includes information on how we determined the share of expenditures on young children for each program.

Methods for State and Local Estimates

Although this report focuses on federal expenditures, it also estimates state and local spending on children in 2006. This estimate focuses on state and local expenditures for K–12 education, Medicaid, six other major federal programs (CHIP, Maternal and Child Health Block Grants, TANF, child support enforcement, child care, and child welfare), and state earned income tax credits. Separate state programs are included to the extent that they appear in federal reporting requirements. Specifically, TANF separate state programs are included; state education spending on prekindergarten is included; and state health, child care, and child welfare spending is included to the extent it is claimed as maintenance of effort or matching under federal health, child care, or TANF programs. However, except for state earned income tax credits, state spending not associated with or appearing in federal reporting is not included. Spending on territories was not included. Note that the annual reporting period for these estimates varies, from a school year (July 2006–June 2007) for education programs, the federal fiscal year (October 2005–September 2006) for major federal programs, to the calendar year for the earned income tax credits. With the exception of Medicaid, we assume the share of program spending going to all children and to children ages 8 and younger was the same in the state and local estimates as in the federal estimates. We estimated the share of Medicaid spending going to all children and children ages 8 and younger on a state-by-state basis, then applied federal matching rates.

Methods for Projections

To estimate future spending trends for children, we primarily use the Congressional Budget Office’s Updated Budget Projections: 2017 to 2027. To project expenditures under tax provisions, we turn to the Urban-Brookings Tax Policy Center’s Microsimulation Model for major tax provisions and the
Office of Management and Budget’s projections in the Analytical Perspectives volume of the federal budget for smaller tax provisions. The projection methodology differs depending on whether a program is mandatory (with spending governed by programmatic rules, such as Medicaid or Social Security), discretionary (with spending set by appropriations action annually and subject to Budget Control Act spending caps), or a tax expenditure. For mandatory spending, 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.

For discretionary spending, the CBO traditionally uses a baseline assumption that spending is kept constant in real terms—that is, spending is adjusted for inflation. However, for 2016 through 2021, the CBO baseline is adjusted downward to reflect caps on defense and other spending as established by the Budget Control Act and subsequent amendments.

The Urban-Brookings Tax Policy Center’s 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. For all other, smaller tax provisions, we use the five-year projections from the Analytical Perspectives volume of the federal budget and then apply the projections’ average growth rate to the next five years.

In general, for programs serving both children and adults, we assume that the share of each program’s spending directed to children will remain constant from 2016 to 2026. However, we use the CBO’s detailed projections by age group for Medicaid, Social Security, and SSI and adjust the projected share of children’s spending for the premium tax credit to take into account lower spending for CHIP under CBO baseline projections. We do not publish program-specific projections because they are somewhat tentative, but we are able to provide broad statements about future spending on children as a whole and in broad budget categories, such as health and education.
Notes


3. To calculate total tax expenditures, we sum Office of Management and Budget estimates of tax provisions for individuals and corporations, even though such provisions are not strictly additive because of interaction effects. Tax expenditures identified by OMB totaled approximately 1.43 trillion in 2016 (OMB 2017a). To this, we add $41 billion ($0.41 trillion) for the dependent exemption, which OMB does not classify as a special tax provision resulting in a tax expenditure but instead views as part of the overall tax structure. We include the dependent exemption in our analyses of expenditures on children and in our estimate of total tax expenditures.

4. The growth in spending on means-tested programs may be at least partly explained by the expansion of Medicaid eligibility to somewhat higher income populations. Although the program remains means-tested, the median upper eligibility limit for children increased from 200 percent of the federal poverty level (FPL) in 2006 to 255 percent in 2016. The number of states that limited Medicaid/CHIP eligibility to children with family incomes less than 200 percent of FPL decreased from 10 in 2006 to 3 in 2016. The number of states that extended eligibility to children with family incomes at 250 percent of FPL or higher grew from 13 to 28 over this same period.
References


About the Authors

Heather Hahn is a senior fellow in the Center on Labor, Human Services, and Population at the Urban Institute. Throughout her career, Hahn has conducted nonpartisan research on the wide range of issues related to the well-being of children and families, including cash assistance, nutrition assistance, and other supports for low-income families. She is coprincipal investigator for Urban's Kids' Share analyses of public spending on children.

Cary Lou is a research associate in the Center on Labor, Human Services, and Population, focusing on policies related to poverty and opportunity. Before joining Urban, Lou worked on state higher education and workforce issues at the Georgetown University Center on Education and the Workforce.

Julia B. Isaacs, a senior fellow in the Center on Labor, Human Services, and Population, is an expert in child and family policy with wide-ranging knowledge of government programs and budgets. She directs research on early childhood education, is coprincipal investigator for Urban's Kids' Share analyses of public spending on children, and codirects the Institute's Kids in Context initiative.

Joycelyn Ovalle is a research associate in the Center for Nonprofits and Philanthropy at the Urban Institute. She works in multiple subject areas, including tax policy, social finance innovation, and the annual Kids’ Share publication.
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