Is America Under-Investing in its Young Children?

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In the ongoing debate over how to best allocate scarce federal resources, it is important to assess the state of public investment in young children and to ask whether current investments reflect the critical importance of the early childhood years.

Young children are simultaneously America's most *valuable* and most *vulnerable* asset. Most valuable because our nation's long-term success and prosperity depends on today's young children growing up to be responsible, productive, healthy adults. Most vulnerable because today, millions of young children in the United States are growing up in environments and under circumstances that not only prevent them from realizing their full potential, but put their cognitive, social, and emotional well-being at risk.

To inform the current policy debate about how government can more effectively support young children and their families, the Bipartisan Policy Center commissioned the Urban Institute to undertake an in-depth analysis of federal and state spending on American children ages 0-8. The detailed results of that analysis are described in a separate report titled *Spending on Children Ages 8 and Younger*.[1] This issue brief highlights several main findings from the analysis and discusses their relevance for policymakers interested in ensuring that current and future patterns of

[1] Heather Hahn, Cary Lou, Julia Isaacs, and Joycelyn Ovalle. 2017. *Spending on Children Ages 8 and Younger.* Washington, D.C: Urban Institute. Available at: https://www.urban.org/research/publication/america-under-investing-its-young-children.

public investment reflect the high stakes for our country's future in promoting young children's healthy early development. One important finding is that federal investment in young children is small as a share of overall federal spending. A second key finding is that federal spending on the 0-8 age group is dominated by health and tax-related expenditures, with much less support directed to child care and early learning. At the state and local level, meanwhile, the bulk of public investment is focused on educating school-aged children.

Together, these results point to a gap in public investment during the earliest years to ensure that all children are developmentally prepared when they enter school and on a path to succeed in school by the time they reach third grade.

Scope of the Analysis

A variety of previous analyses have examined public spending on children in narrower age ranges, such as ages 0-2, 3-5, or 6-11. BPC was interested in looking at the broader period from birth to age 8 because it captures the very early years of childhood that are not only most important to brain development, but also most financially challenging for low- and middle-income families and most critical in terms of positioning children to succeed in school. Abundant research shows that relationships, experiences, and learning in the early years are foundational and have a profound influence on outcomes later in life. These are also the years when young children and their families are most likely to struggle with the consequences of major economic and social shifts that have resulted in more households where all resident parents are working, and where many parents are working longer and more nontraditional hours. And in single-parent households or in families that face the additional challenges of poverty, food or housing insecurity, poor health, or exposure to substance abuse or violence, the youngest family members are also those most likely to be harmed.

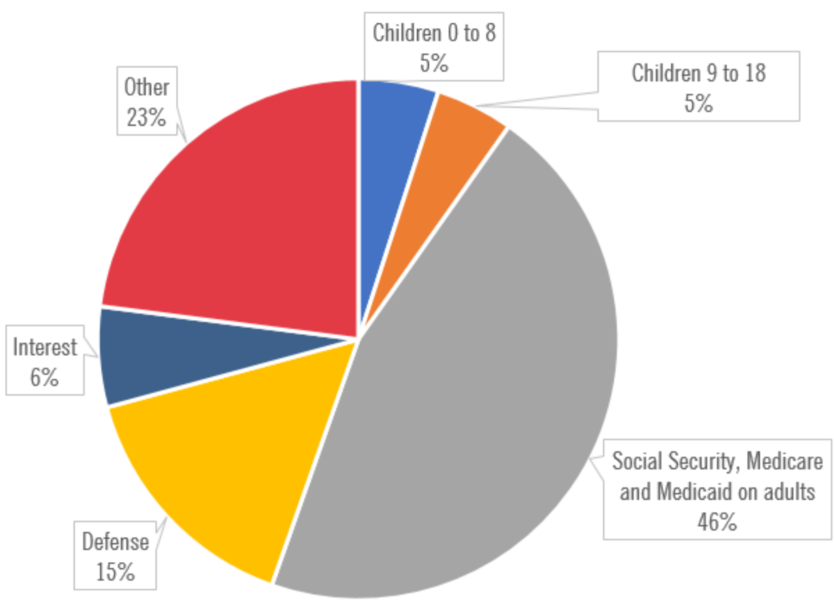
Because the early years are so important for healthy development and later outcomes, investment during this period also produces the greatest returns in terms of improved outcomes in adulthood and lasting benefits to society and the economy overall. For example, studies of school performance show that reading level at grade 3—or approximately age 8—is a strong predictor of later academic success. Students who have fallen behind by that point are not only likely to stay behind, the achievement gap between them and their more successful peers tends to widen in subsequent years.

To assess public investment, the analysis looked specifically at federal and state expenditures on children 0-8 years old, where "expenditures" includes both direct outlays for a variety of government programs that target children—including programs that provide health benefits, nutrition assistance, child care subsidies, and other social services—as well as tax reductions, in the form of credits or deductions (such as the child tax credit and the child and dependent care tax credit). At the federal level, data were available for 2016. The most recent data available for state-level expenditures are from 2006.

Key Findings

Federal expenditures on children ages 8 and younger totaled $247 billion in fiscal year 2016; of this total, 78 percent ($192 billion) consisted of direct outlays and 22 percent consisted of tax reductions ($55 billion). To help put these numbers in perspective, direct outlays for children ages 0-8 accounted for just 5 percent of total federal outlays in 2016—less than the United States spends to pay interest on the federal debt and just a fraction of federal expenditures on the defense.[2] In terms of direct outlays, health and nutrition programs account for the two largest categories of federal spending on young children: In 2016, federal Medicaid expenditures on children ages 8 and younger totaled $48 billion, while spending on Supplemental Nutrition Assistance Program (SNAP) benefits for this age group totaled $19 billion.

Figure 1. Federal Outlays on Social Security, Medicare, and Medicaid for Adults Are Nearly 10 Times Larger than Total Outlays on Children Ages 8 and Younger



Source: Heather Hahn, Cary Lou, Julia Isaacs, and Joycelyn Ovalle. 2017. *Spending on Children Ages 8 and Younger.* Washington, D.C: Urban Institute. Available at: https://www.urban.org/research/publication/america-under-investing-its-young-children.

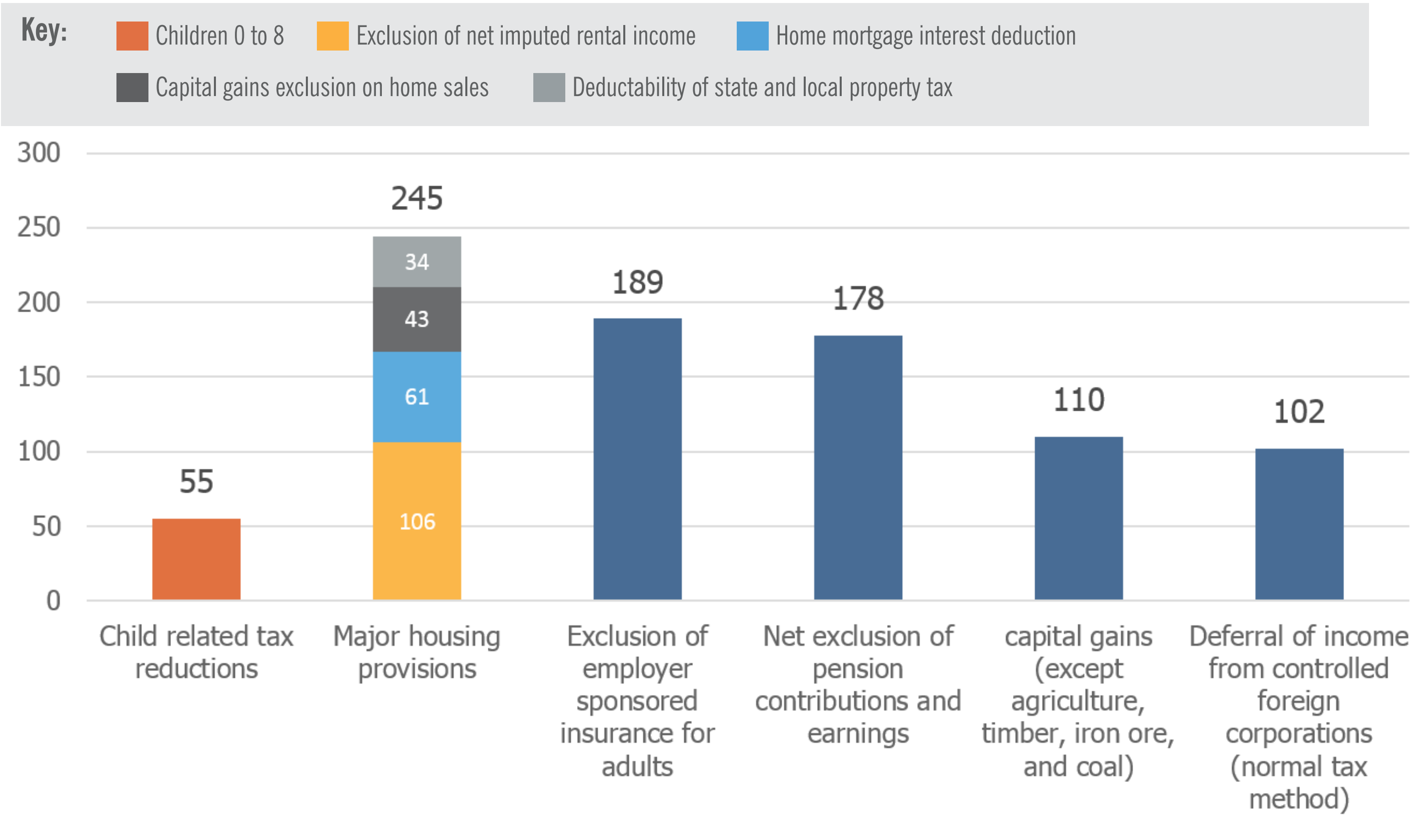
Note: Percentages may not sum to 100 because of rounding.

Expenditures via the tax code (in the form of tax credits and deductions) are another important category of federal spending on young children. Such expenditures totaled approximately $55 billion in 2016. However, tax-related expenditures for young children are even smaller, in budget terms, as a proportion of all federal tax expenditures. Specifically, tax reductions for children ages 8 and younger accounted for less than 4 percent of the estimated $1.47 trillion in total federal tax reductions in 2016. Tax reductions for young children were also much smaller than tax expenditures for other purposes, such as the mortgage interest deduction or the exclusion of employer-sponsored health insurance for adults.

[2] Relative to $192 in direct outlays for children ages 0-8 in FY2016, the U.S. spent roughly 10 times as much on Social Security, Medicare, and Medicaid for adults and three times as much on defense programs.

Figure 2. Child-Related Tax Reductions Are Dwarfed by Other Specific Tax Expenditures

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



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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.

Because states and localities provide most of the funding for public schools, state and local spending accounts for a larger share of direct public outlays[3] for children of all ages (0-18) than federal spending. In total, state and local sources provided 59 percent of public spending on children ages 8 and younger in 2006, compared with 73 percent of total public spending on children ages 9 to 18. As already noted, the latest available data on state and local spending are from 2006, so a comparison to federal spending in 2016 is not possible.

Not surprisingly, given the state and local role in public education, a large share of state and local spending goes to older children, more of whom are in school. For the same reason, federal expenditures are more targeted to low-income children than state and local expenditures. In 2016, two-thirds of federal expenditures, including tax expenditures, on children ages 8 and younger were means tested.

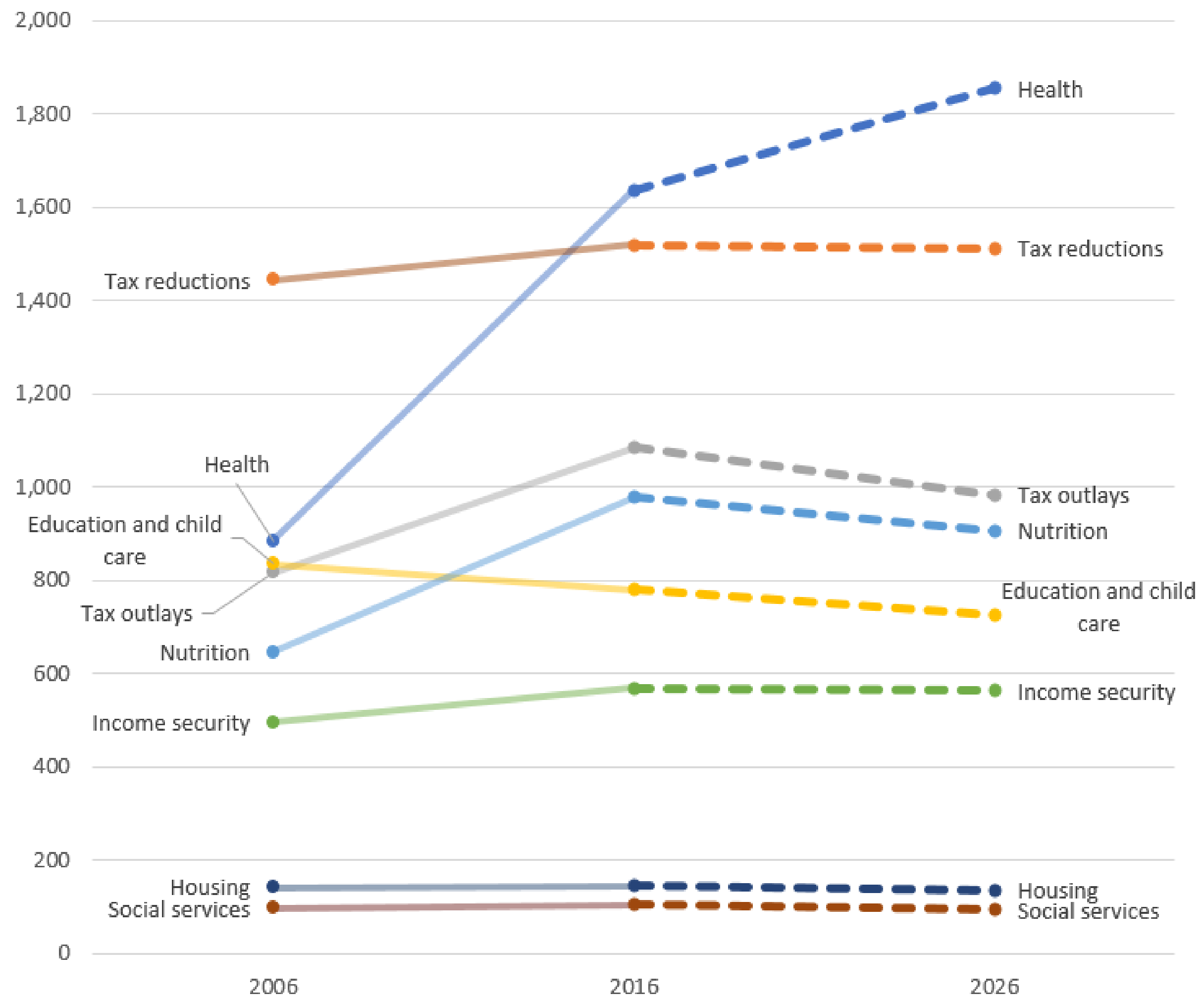
Although total federal expenditures for children ages 8 and younger increased between 2006 and 2016 in real terms (see Figure 3), much of this increase was a result of larger federal outlays between 2006 and 2010, in response to the recession,

[3] The term "outlays" refers to direct spending on programs, as well as the portion of tax credits paid out to families as a tax refund—it does not include reductions in tax liability.

and expanded health coverage for low-income children (through Medicaid and CHIP). Over the next decade, however, overall federal expenditures for young children are projected to decline slightly. After nearly doubling between 2006 and 2016, health spending is the only area projected to see continued growth (albeit at a slower rate). In all other areas, spending is projected to decline—indeed, per-child federal spending for housing, social services, and education and child care programs is projected to be lower, in real terms, in 2026 compared to 2006. 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 3. 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, on young children in 2006, 2016, and projected for 2026 (2016 dollars)



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Conclusion

A growing recognition of the challenges facing families and young children in America today, together with an increased awareness of the critical importance of early childhood development, prompts the question: Are we, as a nation, under-investing in young children? A closer look at patterns of state and federal expenditures for young children suggests the answer is **yes.** While states and localities are directing substantial resources to education, and while the federal government makes important contributions to health care and nutrition assistance for low-income families, a large resource gap remains—particularly with respect to child care and early learning for young children.

This gap is concerning given the high cost of child care for preschool-age children, the lifelong impacts of a lack of access to high-quality care and learning environments at an early age, and the large number of children growing up in families that are struggling to make ends meet. All of these issues are discussed at greater length in BPC's recent report *A Bipartisan Case for Early Childhood Development,*[4] which also provides a set of targeted recommendations for addressing the needs of young children.

Findings from this analysis have important implications for the current policy debate around support for young children and their families. The most prominent take away is that combined local, state, and federal spending on child care and education is lowest during the years before children enter school—precisely when child care costs for working parents are highest. The problem of finding affordable, quality child care is especially acute for low-wage workers, whose child care costs can exceed 40 or even 50 percent of household income, but it affects millions of middle-income families as well. In fact, studies find that child care costs for two preschool-aged children exceed 30 percent of household income even for two-parent households earning a median income in many areas of the country.

Given the evidence that increased support for families coupled with well-designed, affordable early childhood programs can significantly improve outcomes for children, in the near term and over the course of their entire lives, a re-assessment of current public investments and budget priorities is warranted. Debates about the appropriate role of government in supporting young children and their families must be informed by a better understanding, not only of the scale of the investment needed to ensure that all young children have an opportunity to develop their full potential, but of the long-term costs to the nation if that opportunity is lost.

[4] The Bipartisan Policy Center report is available at: bipartisanpolicy.org/library/a-bipartisan-case-for-early-childhood-development.

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BPC'S EARLY CHILDHOOD INITIATIVE

The Bipartisan Policy Center established the Early Childhood Initiative with former Representative George Miller and former Senator Rick Santorum to draw public attention to the very serious issues and challenges surrounding early childhood development in the United States and to offer some bipartisan solutions.

Supporting early childhood development is an issue that can and should unite both political parties. Building on insights and perspectives from experts and stakeholders in this area, the initiative focused on five distinct but essential aspects of the early childhood development challenge: Providing support for parents who are their children's first and most important teachers; addressing the affordability of child care; improving the overall quality of care for young children regardless of where that care takes place; addressing the impact of the opioid crisis on children and their families; and ensuring that public investments are improving programs for young children and achieving better early childhood outcomes.

For more, visit: bipartisanpolicy.org/earlychildhood

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