Budgeting for the Next Generation: Options to Improve Budgeting for Children

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Children have less ability to meet their needs in the short term and more potential in the long term than other age groups, but federal policy does not prioritize them. As part of our Budgeting for the Next Generation series, we have shown that the federal budget process disadvantages children relative to other age groups, federal resources going toward children are small and declining relative to those going to other age groups, and the financial burden the federal government places on children is higher than on other age groups.

With the United States undergoing a major demographic shift, the elderly will almost inevitably receive an increasing share of federal resources in the coming years and decades, and children will likely receive a declining share. However, the magnitude of this shift is not a foregone conclusion, and reforms enacted today could help put children on more equal footing.

In particular, policymakers could do more to account for children, budget for children, prioritize children, and improve policies for children.

This paper puts forward 12 options – developed with the assistance of experts in a variety of fields and from across the political spectrum – to assert children's priorities in the federal budget and improve their outcomes. These options *do not represent recommendations* nor fully detailed proposals but rather possible starting points that are ripe for further development.

Options discussed in this paper include:

1. **Estimate and Highlight Children's Spending in Budget Projections**
2. **Use "Incremental Budgeting" to Show Spending Growth by Age Group**
3. **Require Government to Calculate Benefits and Liabilities by Age Group**
4. **Use "Portfolio Budgeting" for Children**
5. **Establish a Children's Appropriations Subcommittee**
6. **Set a Target for Children's Spending**
7. **Establish a Children's Ombudsman or Commissioner**
8. **Establish a Select Committee on Children**
9. **Send Parents Annual Debt and Interest Statements**
10. **Authorize CHIP Permanently and Regularly Review All Health Spending**
11. **Identify a Dedicated Revenue Source for Some Children's Programs**
12. **Re-Think Default Indexation of Federal Programs and Provisions**

Account for Children

1) Estimate and Highlight Children's Spending in Budget Projections

The federal government does not currently track total spending on children. While the Congressional Budget Office (CBO) and Office of Management and Budget (OMB) regularly release projections of current law and proposed spending and revenue by category, they don't show spending by age or cohort, and spending on children spans many different programs and budget functions.

To promote transparency and accountability on behalf of the youngest Americans, CBO and OMB could be required to calculate and display projected spending on children under current law and under the President's budget proposal. These figures would be incorporated in the President's Budget, CBO's Analysis of the President's Budget, and CBO's Budget and Economic Outlook.

In addition, the Joint Committee on Taxation (JCT) and Department of Treasury could be required to include a memorandum line in their annual estimates of tax expenditures showing the total cost of tax expenditures on children. A user-friendly interface might also be developed to make it easier for the general public to explore this information.

This proposal would help taxpayers better understand how many of their tax dollars go toward children and hold lawmakers accountable for actual or proposed reductions in children's share of the overall budget.

2) Use "Incremental Budgeting" to Show Spending Growth by Policy Area and Age Group

Under current budgeting practices, current law spending and revenue is projected in nominal dollars over a ten-year period, and all proposals are measured relative to that baseline. This approach is vital in helping policymakers understand the effects of a change in law, but it does little to show the effect of indecision or the results of an overall budget.

Rather than measuring changes relative to a baseline, incremental budgeting measures changes in spending and revenue relative to a base year. Using real dollars or shares of GDP, incremental budgeting shows how much additional resources are dedicated to budget areas over time. Unsurprisingly, this form of budgeting shows that virtually all new revenue raised and borrowed over the next decade will go toward Social Security and health programs (mainly for the elderly).

Presenting an incremental-budgeting view of projections would help reframe the discussion of where future resources will and should go. This practice would also make clear that programs for children are scheduled to receive little of the projected increase in revenue collection in the coming years. Incremental budgeting could also be combined with cohort or generational budgeting, which would help show explicitly how various age groups are projected to fare under current law and budget proposals.

3) Require Government to Calculate Benefits and Liabilities by Age Group

The costs and benefits of government programs differ from cohort to cohort. Age groups receive different levels of direct spending from the federal government and are promised different levels of future spending. At the same time, age groups pay different levels of taxes and face different burdens in the forms of the national debt and unfunded liabilities or obligations.

To better highlight fiscal burdens and benefits by generation, the Government Accountability Office (GAO) or another agency could be required to regularly report on obligated benefits and liabilities by age group. This has sometimes been referred to as generational accounting.

The Treasury Department and GAO already issue an annual financial statement for the U.S. government, incorporating total liabilities and obligations (including implicit social insurance liabilities) on a present-value basis. One way to carry out this option would be to divide liabilities and the implicit assets they create among ten-year cohorts.

This accounting would serve as a helpful reminder to policymakers of the generational distribution of federal benefits and taxes and in particular would help to highlight the burdens being placed on younger generations under current law.

Budget for Children

4) Use "Portfolio Budgeting" for Children

Major spending and tax breaks for children span dozens of programs and eight different congressional committees. As a result of this fragmentation, decisions on children's spending and supports are dealt with at different times and in various ways without ever being considered holistically.

Portfolio budgeting is a process that looks at all resources devoted to a particular issue area. A children's portfolio could be constructed by looking at discretionary programs, mandatory programs, tax provisions, and regulations together as a single "portfolio." Such a process could take place in the legislative branch or the executive branch in development of the President's budget.

This process could help policymakers more efficiently focus on how the budget helps achieve results for children. By looking across agencies and congressional committee jurisdictions, this process would help lawmakers grapple with both the overall magnitude (or lack thereof) of children's spending as well as its composition. Thoughtful review and evaluation can help ensure that scarce resources are being spent wisely and effectively.

5) Establish a Children's Appropriations Subcommittee

There are 12 different appropriations subcommittees charged with putting forward discretionary appropriations bill for their respective functions every fiscal year. Spending for children spans half of those subcommittees, with most discretionary children's spending under the jurisdiction of the Labor-Health and Human Services-Education subcommittee (Labor-HHS-Education).

This structure creates two problems for children's spending. First, decisions over education and other child-focused spending in the Labor-HHS-Education appropriations bill are often overshadowed by debates and considerations over larger and more contentious health care and labor issues. Second, it is often difficult for appropriators to consider children's spending holistically because it is split over many subcommittees.

To address these concerns, lawmakers could establish a new Children's Appropriations Subcommittee, which would combine the Education and most other child-related components of Labor-HHS-Education with other child-specific programs currently spread across multiple subcommittees. A similar change in 2003 established the Homeland Security subcommittee.

This option would improve focus on children's programs, allow lawmakers to more easily and effectively prioritize within children's spending, and draw more attention to the overall size of the children's budget.

6) Set a Target for Children's Spending or Outcomes

The current budget process neither measures spending on children nor sets any goals for how much should be spent on children in absolute terms or relative to other priorities. Once children's spending and tax breaks are measured, it would be possible to change this practice.

As part of the budget process, budget cap negotiations, or general oversight, lawmakers could be required to set multi-year targets for children's spending. These targets could apply to discretionary spending alone, to all spending, or to all spending and tax preferences. They could be set in dollars, as a share of the budget, as a share of tax revenue, or as a share of the economy.

Under this process, the President's budget proposal would either have to meet these targets or explicitly propose to change them, just as it is required to do with current discretionary spending caps. In terms of enforceability, targets could represent a hard floor with roadblocks to passing appropriations or other bills if projected spending falls short, or they could represent soft targets, which would perhaps trigger a warning and require a plan for rectification from the President.

Alternatively, lawmakers could set specific goals for children's outcomes. For example, they could set a goal of reducing child poverty by a given percentage or increasing graduation rates by a certain amount or closing certain achievement gaps between children of different backgrounds or household income levels.

Even with no enforcement mechanism, explicit targets would help guide lawmakers in allocating spending to children. They would also provide a tool for long-term planning for children's spending, something that is difficult to do otherwise since children's spending is disproportionately discretionary and thus subject to the annual appropriations process.

Prioritize Children

7) Establish a Children's Ombudsman or Commissioner

The majority of U.S. states and at least 40 countries around the world have a Children's Ombudsman, a Children's Commissioner, a Child Advocate office, or a similar position. This position or office is designed to promote the rights of children, who generally lack direct representation in the democratic process.

To ensure better representation of children on the federal level, an office of the Children's Commissioner (or Ombudsman or Advocate) could be established. This office and position could be designed in any number of ways, but it should have some level of independence – perhaps similar to an Inspector General office – and the ability to engage in research and conduct investigations.

Most Children's Commissioners around the world focus chiefly on children's rights and child welfare, though some take a more expansive view. The Children's Commissioner of England, for example, does work related to children's health, education, household stability, interaction with digital and social media, detention issues, physical activity and play, foster care, and dozens of other issues related to children. They also have issued a report, along with the Institute for Fiscal Studies, on public spending on children.

A United States Children's Commissioner could operate in a similar way, focusing on broad perennial issues while also continuing to identify new issues in need of study and exploration. The office could also serve as a direct advocate for children in court proceedings, congressional hearings, and executive agency decision making.

While lawmakers must think through the details of such a position carefully, having a Children's Commissioner in any capacity would most certainly increase the overall focus on and prioritization of children by the federal government.

8) Establish a Select Committee on Children

Because federal programs and tax provisions for children span many functions, there is no single congressional committee dedicated to looking at children's issues. The one subcommittee specifically targeted toward children – the Senate's HELP Subcommittee on Children and Families – has not held a hearing since 2014 and has not informed legislation since 2012.

In order to encourage regular discussion on children's issues and programs in a cross-cutting manner, both chambers could create a Select Committee on Children. Similar to the current Senate Select Committee on Aging, the new committees would take a holistic approach to children without removing jurisdiction from existing committees that deal with these issues.

The committee would hold hearings, conduct oversight, develop legislation, and issue reports. Its responsibilities could include an annual report on the state of children and federal policies related to children.

A Select Committee on Children would allow lawmakers the opportunity to explore more deeply some of the challenges facing kids today, engage in a dialogue between Congress and the Administration about priorities regarding future generations, and facilitate bipartisan legislation that tries to solve some of the most urgent problems facing children. Establishing such a committee could bring children and adults closer to parity in the legislative process.

9) Send Parents Annual Debt and Interest Statements

While the fiscal burden borne by adults through taxes is relatively transparent, parents are far less aware of the burden being placed on their children through increased borrowing. In 2018, about one-fifth of federal spending will be deficit-financed. That borrowing appears on no payroll statement nor any tax return, but it will ultimately be imposed on younger and future generations through higher taxes, lower non-interest spending, higher inflation, and/or slower income growth.

Similarly, Americans are largely unaware of what share of federal spending is going to finance past promises through interest on the debt. By 2021, those payments will exceed the cost of all spending and tax provisions for children.

To make clear the fiscal burden being placed on future generations, families could be sent an annual statement showing how much is being borrowed and what their theoretical share of that borrowing is. This statement could be sent as a stand-alone statement or integrated into the income tax return process.

Another statement could also show families the share of spending that is going toward interest payments each year and how that compares to other major budget functions. On the current budget trajectory, spending on interest will be nearly double the amount of spending on children in about a decade.

Improve Policies for Children

10) Authorize CHIP Permanently and Regularly Review All Federal Health Spending

Whereas health programs for adults (Medicare, Medicaid, and exchange subsidies) are authorized on a permanent basis and do not have explicit limits, the Children's Health Insurance Program (CHIP) is temporary and capped. Every few years, policymakers must reauthorize CHIP and set maximum spending levels – subjecting it to a far higher level of uncertainty and ambiguity than adult health programs.

In addition to disadvantaging children directly, CHIP's temporary and capped structure is also fiscally problematic. For one, CHIP's expiration actually *costs* the federal government money, since it is cheaper for the federal government to cover children under CHIP than under Medicaid and the exchange subsidies. In addition, appropriators take advantage of CHIP's unspent dollars by trading them for new discretionary spending that increases deficits. (This is known as a CHIP CHIMP – you can read more here.)

To improve certainty for children and overall budget outcomes, policymakers could authorize CHIP on a permanent and uncapped basis in a manner similar to Medicare and Medicaid or even make CHIP part of Medicaid. To reduce the risk of runaway costs, they could also institute a regular review period – perhaps every five years – in which they would be required to reassess and re-budget for all federal health spending and tax breaks (see, for example, these proposals).

While there are risks to making CHIP a permanent entitlement, the likely outcome would be increasing certainty of health funding for children and slightly reducing future budget deficits. Putting all health spending and tax breaks under regular review, meanwhile, can give policymakers the opportunity to prioritize to whom and how the federal government will allocate scarce health care dollars on an ongoing basis.

11) Identify a Dedicated Revenue Source for Some Children's Programs

While over 60 percent of spending on the elderly and half of spending on all adults is financed from a dedicated revenue source, only 5 percent of spending on children is. The fact that children's spending is far more likely to be funded by general revenue puts it at a political and financial disadvantage relative to other spending.

This discrepancy could be reduced by financing certain children's programs with a dedicated revenue source. Such a source could finance existing programs such as CHIP, Temporary Assistance for Needy Families (TANF), and school lunch programs, and/or new programs for children.

One possible source of funding is the estate tax (or an inheritance tax), which taxes intergenerational transfers among wealthy Americans and therefore might be a logical source to finance intergenerational transfers to a broader swath of Americans. The estate tax has been incrementally scaled back over the past two decades, but it could be partially restored or replaced with a similar revenue source to assure adequate resources for children. Other alternatives – from a payroll tax to a carbon tax to a sugary drink tax – might also make sense depending on what they are funding.

Regardless of the source, new revenue dedicated to existing children's programs can help ensure these programs receive adequate funding and remain politically salient without having to increase the debt burden placed on those very same children.

12) Re-Think Default Indexation of Federal Programs and Provisions

Currently, most spending on adults and seniors automatically grows faster than the economy, while most spending on children includes little or no real automatic growth. This reality is partially a result of demographic shifts, but it is also driven by program design. For example, initial Social Security benefits rise with wages and Medicare spending with health costs. However, Supplemental Nutrition Assistance Program benefits (SNAP, or food stamps) only grow with inflation, the child tax credit includes no nominal growth per person, and TANF ("welfare") does not even grow nominally in total spending (therefore benefits face per-person *decreases* if the number of beneficiaries grows).

While it may be desirable for spending on senior health care and retirement benefits to grow faster than spending on child welfare, tax credits, and food assistance, it is not clear that this differential should serve as the automatic default for all programs. Instead, smarter budgeting would offer policymakers the opportunity to adjust growth rates based on resources, needs, and priorities.

To put children and adults on more equal footing, lawmakers could support a comprehensive re-evaluation of indexing throughout the budget and tax code. Such a review could be performed by an outside commission or by a special congressional committee, and it should include concrete recommendations. For example, a review might conclude that Social Security, TANF, and child tax credit benefits should all be indexed to inflation as a default and that future policymakers should then evaluate if benefit levels should be higher or lower on a regular basis.

Rethinking indexing would not necessarily increase spending on children relative to spending on adults, but it would require policymakers to affirmatively support the growing gap embedded in current law.

Conclusion

It is clear the current budget process does not prioritize children, a reality reflected in budget outputs and overall outcomes. With the population aging, much of government on autopilot, and debt on course to rise rapidly, the treatment of children is unfortunately likely to get worse, not better.

Policymakers have an opportunity to improve this situation. A concerted effort to slow the growth of the national debt and increase the quality and share of spending and tax breaks on children would help assure we are adequately investing in the next generation without leaving them massive new burdens. Short of such fundamental changes, improvements to the budget and policy process could foster better and fairer attention on children's issues and programs.

This paper outlines 12 possible ideas to better account for, budget for, prioritize, and improve programs for children. Much more work is needed to flesh these proposals out and transform them from ideas into implementable changes. This important work must continue to assure fair and responsible budgeting for the next generation.