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Budgeting for the Next Generation: Does the Budget Process Prioritize Children? August 16, 2018

Compared to other age groups, children have higher levels of poverty, less ability to provide for themselves, and greater potential to support future growth. Despite children making up one-quarter of the population, less than one-tenth of the federal budget is [spent](#) on children. By comparison, we estimate that 60 percent of the budget is spent on adults, including 35 percent on the elderly (the 30 percent spent on neither children nor adults goes mostly to defense, interest, and infrastructure).¹ One reason for this disparity is the budget process itself, which appears to significantly disadvantage children.

As part of our *Budgeting for the Next Generation* series, this paper shows how the current budget process leaves programs for children at a structural disadvantage relative to programs that benefit the elderly and other adults. Specifically, we show:

- **While much of spending on adults is mandatory, spending on children is disproportionately discretionary** and thus must be reviewed and renewed with other appropriations.
- **Spending on children is disproportionately temporary**, and it requires far more regular reauthorization and appropriation than programs for adults.
- **Spending on adults is rarely limited while spending on children is often capped**, constraining what can be spent for most major children's programs.
- **Most programs for children lack built-in growth**, leading spending on children to erode relative to spending on adults and relative to the economy.
- **Programs for children lack dedicated revenue** and thus lack the political advantage and protection of programs for seniors that enjoy this benefit.
- **Growing spending on adults is burdening younger generations** by driving up debt and thus reducing future income and increasing costs.

Taken together, these features of the current budget process are increasingly leading spending on children to be crowded out, as the burden we place on children rises.

This paper builds on our previous pieces, [Budgeting for the Next Generation: A New Series on Children and the Federal Budget](#) and [Budgeting for the Next Generation: How Do Kids Fare?](#), and will be followed by a paper on possible solutions to ensure the United States is investing in, rather than borrowing from, our future.

¹ Unless otherwise specified, all estimates in this paper are for 2017. Spending on children comes from the Urban Institute's [Kids' Share](#) report, while spending on adults and the elderly are our estimates of *transfer spending only*, based on CBO data and in part based on the Kids' Share methodology.

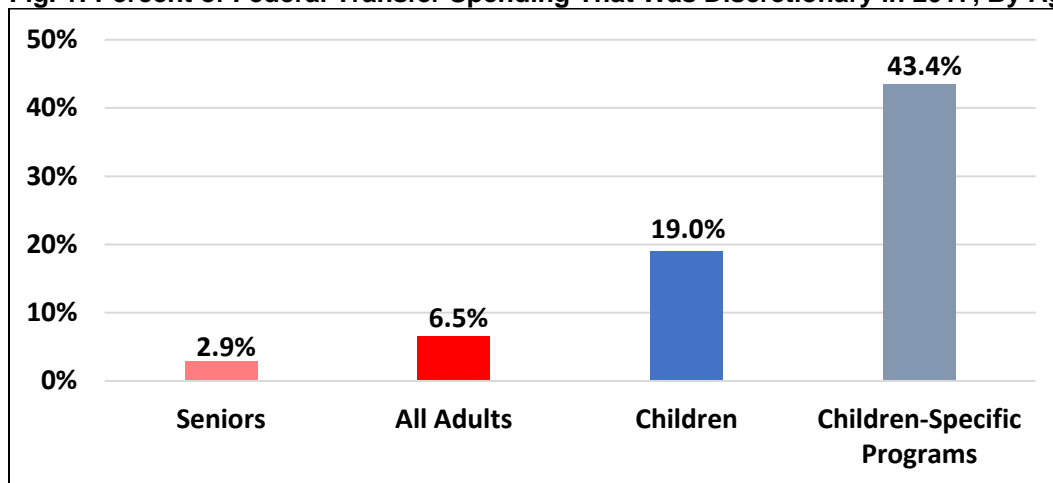


While Much of Spending on Adults is Mandatory, Spending on Children is Disproportionately Discretionary

Under current budget rules, there are two types of spending – discretionary spending that must be appropriated annually by Congress and mandatory spending that can be spent more-or-less automatically. Inherently, the budget process offers more favorable treatment to mandatory programs, which do not need to be reviewed and appropriated every year. Spending on children is less likely to be mandatory than spending on adults or the elderly.

The vast majority of transfer payments to individuals are paid on the mandatory side of the budget. In fact, less than 7 percent of transfer payments to all adults are discretionary, and only 3 percent of spending on the elderly is discretionary. Yet when it comes to spending on children, we estimate roughly \$1 in every \$5 is discretionary. And when it comes to spending on programs specifically for children (as opposed to programs for adults that also benefit children), more than 43 percent is discretionary.

Fig. 1: Percent of Federal Transfer Spending That Was Discretionary in 2017, By Age Group



Sources: Congressional Budget Office, Office of Management and Budget, Urban Institute, and CRFB calculations.

Many of the most important programs for children are discretionary, including Title I education spending; special education; Head Start; Section 8 housing; special supplemental food for women, infants, and children (WIC); school improvement; and Child Care and Development Block Grants. And while some programs for children are mandatory – for example, the Children’s Health Insurance Program (CHIP), the refundable child tax credit, and child nutrition programs – most mandatory spending for children comes from programs for adults, such as Social Security, Medicaid, and the Supplemental Nutrition Assistance Program (SNAP or food stamps).

Because discretionary spending is appropriated each year – and almost never on time – spending on children faces substantially more uncertainty than spending on adults. In addition, discretionary programs tend to experience stronger financial limits, slower growth, and more frequent cuts than mandatory spending programs. These disadvantages also apply to a number of mandatory programs for children.



Spending on Children Is Disproportionately Temporary

Under the federal budget process, spending is either allotted for a fixed period of time or allowed to continue indefinitely. Spending on children is far more likely to be temporary than spending on adults or seniors and therefore must be renewed far more regularly.

We estimate that 36 percent of spending on children is temporary and must be regularly renewed, compared to 10 percent of spending on adults, including 4 percent of spending on the elderly.

A large share of spending on children – including for education, Head Start, and housing – is temporary because it is discretionary. Therefore, funding must be renewed every year (or more frequently) as part of the annual appropriations process. Yet even among mandatory programs, spending on children is more likely than spending on adults to require regular reauthorization.

For example, both Medicare (100% benefiting adults) and Medicaid (75% benefiting adults) are permanent programs that can continue spending indefinitely. On the other hand, CHIP (95% benefiting children) must be regularly renewed; CHIP authorizations and temporary extensions have lasted an average of three years since its inception.

As another example, Social Security (98% benefiting adults), Supplemental Security Income (82% benefiting adults), and unemployment (100% benefiting adults) are permanent programs, whereas Temporary Assistance to Needy Families (77% benefiting children) and the Supplemental Nutrition Assistance Program (44% benefiting children) must be regularly reauthorized.

Fig. 2: Authorization Characteristics of Select Programs

Program	Share to Children	Budget Classification	Authorization/Appropriation Length	
			Average	Longest
K-12 Education	100%	Discretionary	2 months	1 year
Head Start	100%	Discretionary	2 months	1 year
CHIP	95%	Mandatory	3 years	10 years
TANF	77%	Mandatory	7 months	6 years
SNAP	44%	Mandatory	1 year	6 years
Medicaid	25%	Mandatory	Permanent	Permanent
Social Security	2%	Mandatory	Permanent	Permanent
Medicare	0%	Mandatory	Permanent	Permanent
Unemployment	0%	Mandatory	Permanent	Permanent

Source: Urban Institute, Congressional Budget Office, Congressional Research Service, CRFB estimates.

Table shows lesser of appropriation or authorization period. Averages cover about two decades. TANF and SNAP data begin in 1996, CHIP data in 1997, and K-12 Education and Head Start data are based on average length of Labor-HHS-Education appropriations since 1997.

There are many budgetary and policy advantages to requiring programs to be regularly reviewed and renewed. However, by making most children-specific programs temporary while most programs for adults are permanent, the budget process puts children at a disadvantage and makes it harder to policymakers to weigh trade-offs between programs.

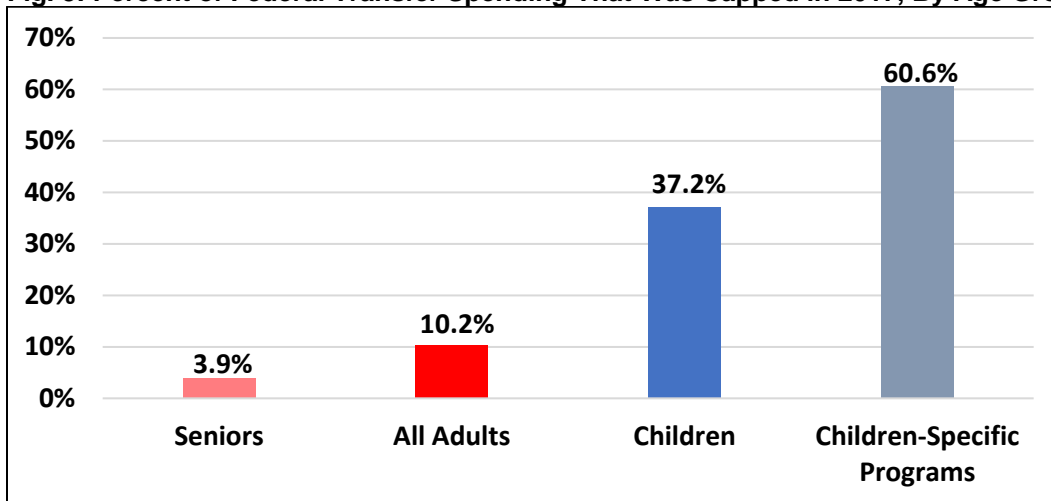


Spending on Adults is Rarely Limited while Spending on Children is Often Capped

In the federal budget process, some programs are funded with a specific amount of money, while others are allowed to spend as much as needed to meet their objectives – generally providing benefits based upon a formula. Once again, spending on children is disproportionately constrained as compared to spending on adults and especially seniors.

About 37 percent of spending on children has a fixed budget, including more than 60 percent of spending on children-specific programs. By comparison, only 10 percent of spending on all adults is within a fixed budget, including only 4 percent of spending on seniors.

Fig. 3: Percent of Federal Transfer Spending That Was Capped in 2017, By Age Group



Sources: Congressional Budget Office, Office of Management and Budget, Urban Institute, and CRFB calculations.

All discretionary programs – including for education, early childhood, and housing – are given an annual budget (in addition to the overall cap on discretionary spending). At the same time, mandatory spending on children is more likely to be spent out of a capped multi-year appropriation than the generally unlimited mandatory spending on adults.

For example, TANF (77% benefiting children) provides states about \$16.5 billion per year to fund welfare and work support programs. This block-granted level is binding regardless of the number of people who apply to the program or who may need it. CHIP (95% benefiting children) spending is also effectively a block grant, or a multi-year fixed appropriation, although historically its appropriation has been in excess of what is needed.

On the other hand, Medicare's outpatient care and drug programs (100% benefiting adults), Medicaid (75% benefiting adults), and SSI (82% benefiting adults) have unlimited spending authority with no direct budgetary constraint. Medicare's hospital insurance program (100% benefiting adults) and Social Security (98% benefiting adults) also have unlimited spending authority, though they are constrained by the level of dedicated revenue and trust fund reserves.

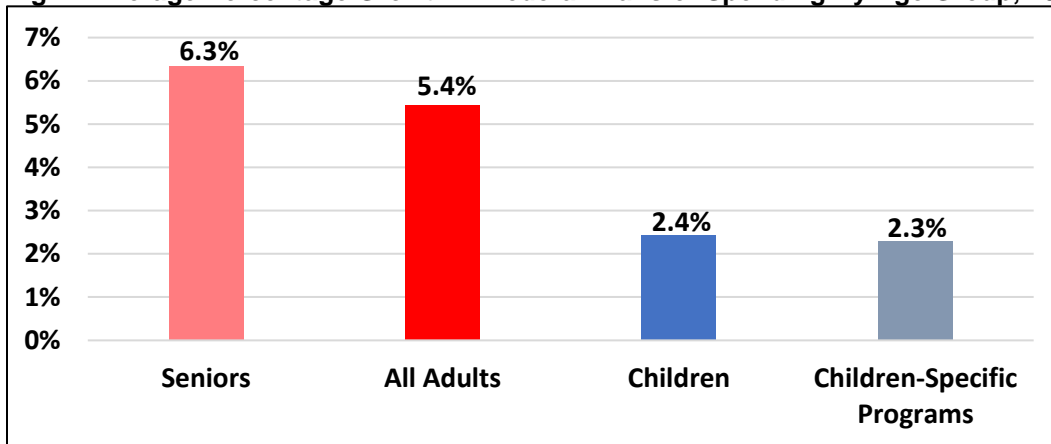


Most Programs for Children Lack Built-In Growth

Under the federal budget process, spending on many programs grows automatically but at very different rates. Overall, spending on adults and especially the elderly tends to automatically grow much faster than spending on children.

Assuming discretionary spending grows with the current spending caps, only about half of spending on children is projected to grow faster than inflation over the next decade. On the other hand, 93 percent of spending on adults will grow faster than inflation, and 84 percent of spending on adults will grow faster than the overall economy. On average, we project spending on adults will grow by 5.4 percent per year over the next decade, including 6.3 percent per year for spending on the elderly. Meanwhile, spending on children will only grow by 2.4 percent per year.

Fig. 4: Average Percentage Growth in Federal Transfer Spending By Age Group, 2017-2028



Sources: Congressional Budget Office, Office of Management and Budget, Urban Institute, and CRFB calculations.

Automatic spending growth in transfer programs occurs either because the eligible population grows and budget rules accommodate this growth, or costs per person increase over time.

When it comes to programs for the elderly – particularly Social Security and Medicare – both factors drive growth. Enrollment in those programs is increasing by more than 1 million per year, and program rules mostly allow spending to grow with this enrollment. Meanwhile, Social Security’s benefit formula increases initial benefit levels with wage growth, and Medicare spending per person grows roughly with health costs – which is often faster than the economy.

On the other hand, many programs for children either experience little growth in eligibility (e.g., SNAP outside of recessions) or are not designed to accommodate such growth even if it occurs (e.g., TANF). Meanwhile, virtually no programs for children build in growth in per-person benefits. Whereas Social Security and Medicare benefits grow roughly in line with the economy, SNAP and certain social services programs designed to benefit children grow only with inflation, and TANF spending doesn’t grow even in nominal dollars.



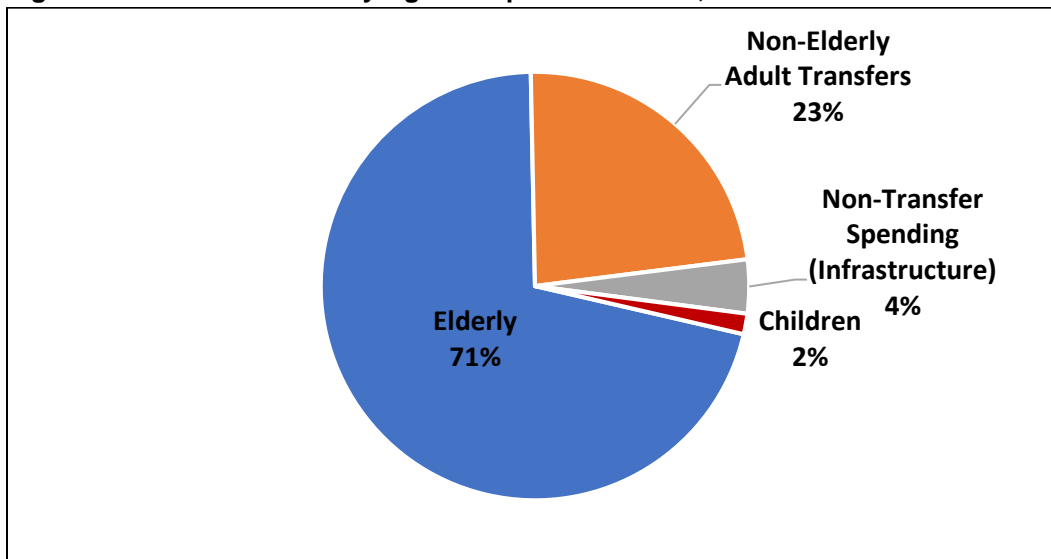
Programs for Children Lack Dedicated Revenue

While the majority of federal spending is funded out of the general fund, a number of programs have dedicated sources of revenue. For example, Social Security, Medicare Part A, and Unemployment Insurance are funded mostly with dedicated payroll taxes; about one-quarter of Medicare Part B and Part D is funded from dedicated premiums; and highway spending is funded primarily through a gas tax.

Historically, programs with dedicated sources of revenue have generally been expanded when revenue exceeds spending and tend to enjoy a protected status when the programs are in or near balance. Even when dedicated revenue falls short of spending – for example, in the case of Social Security – proposals for spending reductions almost never allow spending to fall below revenue.

In other words, dedicated revenue offers programs a political advantage. However, nearly all dedicated revenue goes toward programs for adults. Last year, the federal government raised \$1.2 trillion of revenue and offsetting receipts designated toward specific spending programs. Of that, 71 percent went toward the elderly, roughly 23 percent went toward transfers to non-elderly adults, and 4 percent went toward non-transfer spending (like infrastructure). Only 2 percent of total dedicated revenue went toward children, virtually all as part of Social Security.

Fig. 5: Dedicated Revenue by Age Group and Function, 2017



Sources: Congressional Budget Office, Office of Management and Budget, Urban Institute, and CRFB calculations.

Measured another way, 48 percent of transfer spending on all adults and 61 percent of spending on the elderly is funded from dedicated revenue (or out of trust funds that accrue dedicated revenue). Only 5 percent of spending on children is supported by dedicated revenue.



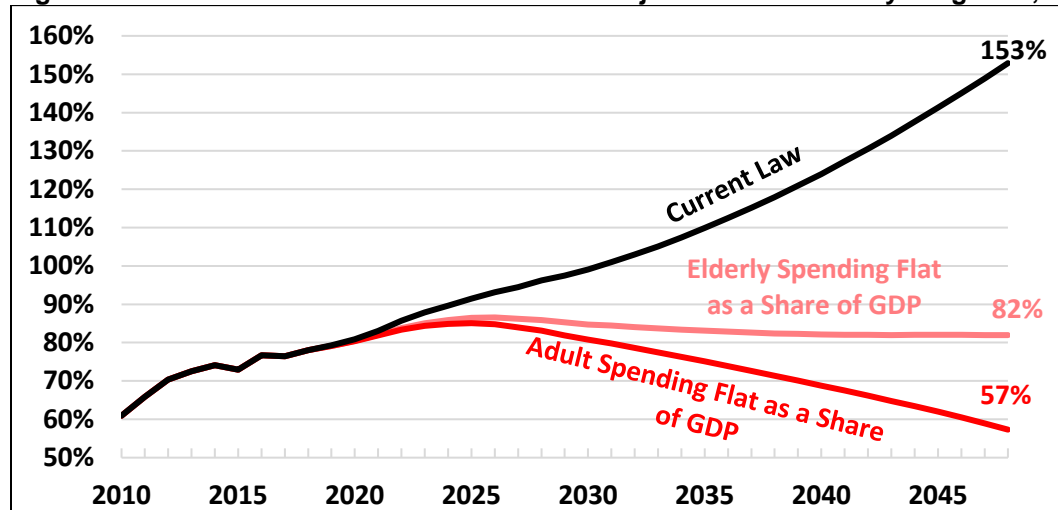
Growing Spending on Adults Is Burdening Younger Generations

The budget process clearly advantages adults and in particular the elderly, but that benefit comes with a cost. As the population ages, spending on adults will grow faster than revenue. As a result, the national debt will balloon, leaving a massive burden for future generations.

We estimate that spending on adults will rise from 13 percent of GDP in 2017 to 17 percent by 2048, and spending on the elderly will rise from 7 percent of GDP in 2017 to 11 percent in 2048.

As a result of this rising spending, without increased revenue, the debt will double from 78 percent of GDP today to 153 percent in three decades. If spending on adults was instead held flat as a share of GDP, we estimate debt would instead decline to 57 percent of GDP by 2048. Thought of another way, rising spending on adults will nearly *triple* projected debt levels by 2048.

Fig. 6: Debt-to-GDP Ratio With Flat Growth for Major Adult and Elderly Programs, 2010-2048



Sources: Congressional Budget Office, Urban Institute, and CRFB calculations.

This rising debt will create a significant burden on today's youth. Because debt cannot indefinitely rise faster than the economy, rising debt today means larger and more abrupt deficit reduction in the future. Younger and future generations will therefore pay higher taxes and receive less spending in order to support lower taxes and higher spending on adults today.

Their standard of living will also suffer. The Congressional Budget Office (CBO) previously estimated that in three decades, rising debt will reduce average income by \$3,000 per person and increase interest rates on everything from mortgages to car loans.

Additionally, rising debt will crowd out important government investments, as interest is slated to become the single largest federal spending item within three decades or less. And younger generations will also bear the brunt of any potential fiscal crisis.

The budget process doesn't just disadvantage children today; it also burdens them tomorrow.



Conclusion

It is clear the current budget process disadvantages children in a number of ways. Compared to adults (and especially the elderly), spending on children is more likely to be discretionary, is more likely to be temporary, is more likely to be capped, is less likely to have built-in growth, and almost universally lacks dedicated revenue.

However, the solution is not to simply give all children's programs the same boundless spending status of programs for adults. The growth of programs for adults and the elderly is driving the national debt to unsustainable levels, which will ultimately impose a massive economic burden on younger and future generations.

Structuring programs for children in a similar manner to programs for adults would further worsen this debt burden and effectively ask children to mortgage their future in order to invest in their present.

Instead, the United States needs a strategy to ensure that the federal government devotes an adequate share of resources to children while also reducing the fiscal burden we impose on them. Reforms to the budget process should help level the playing field, while revenue and spending changes should aim to improve generational fairness.

The lopsided treatment of children's spending is clearly unfair, and a thoughtful solution should consider how to re-focus scarce resources while assuring taxes and spending for all demographic groups are sustainable.

Our next paper will suggest specific solutions to begin addressing these concerns.