

COMMON GROUND: A ROADMAP TO INVESTING IN WHAT WORKS FOR CHILDREN IN TOUGH FISCAL TIMES

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Introduction

The size of the nation's debt has important implications for children and families and for programs that serve them. Even so, children received relatively little attention during the recently concluded presidential campaign. This fall, Child Trends devoted its 2012 Kristin Anderson Moore Lecture to the implications of the debt for children to identify common ground so that deficit reduction could not harm but benefit children. This brief summarizes remarks made at the Lecture, including opening remarks by Kristin Moore and key points made by a panel of three experts: Mindy R. Levit of the Congressional Research Service; Eugene Steuerle, Institute Fellow and Richard B. Fisher chair at the Urban Institute; and Patrick McCarthy, president of the Annie E. Casey Foundation.

Among the central conclusions of the panelists:

- Recent budgets have led to an “incredible shrinking budget for children and working families,”² despite rhetoric acknowledging that children are crucial to our nation's future.
- While decision makers may be gridlocked, budget experts agree on many of the fundamental changes needed to reduce the deficit on a long-term basis.
- Children – and programs that help children – stand to be among the greatest beneficiaries of long-term deficit reduction.
- Many evidence-based programs and approaches are being developed that are effective for children and a good investment for the nation.

Kristin Moore: Common Ground as an Impetus to Action

Although often overlooked in discussions of the debt crisis, common ground exists and offers a pathway to action. First, there is common ground on the importance of children, as evident in public statements by policy makers on both sides of the aisle and in public opinion polls. Second, there is common ground around investing in evidence-based programs – those that have been proven to achieve real results for children and families. The recent expansion in evidence-based programs in pregnancy prevention, education, and home-visiting hold tremendous promise for the future success of children and society. Third, there are many common ideas and shared recommendations among leading budget thinkers about what it would take to achieve debt reduction. Not all of the recommendations are popular, and consensus can be hard to sustain when enacting specific legislation. But the fact that so many experts point to the same set of solutions suggests we should heed their advice.

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² Julia Isaacs, Katherine Toran, Heather Hahn, Karina Fortuny, and C. Eugene Steuerle. 2012. *Kids' Share 2012: Report on Federal Expenditures on Children through 2011*. Washington, DC: The Urban Institute.
<http://www.urban.org/publications/412600.html>.

Mindy R. Levit: Common Ground Among Budget Experts³

The Congressional Budget Office projects that, in roughly 10 years, under current policies, tax collections in the US will only be sufficient to cover interest on the federal debt, Social Security, and federal health programs such as Medicare and Medicaid. By 2050, under certain assumptions, every dollar that the US collects will go towards paying interest on the federal debt only; this means that everything else that we want to spend money on will have to use borrowed money.

A wide variety of deficit reduction policies have been proposed, and a handful of them have drawn attention due to their bi-partisan support. Although the specific recommendations in these proposals vary widely, they share some common features. Everyone recognizes that you cannot fix the deficit problem by cutting spending or raising revenue alone; a mix of both is needed. Each plan recommends major changes to Medicare and Social Security, the major entitlement programs, as well as reforms of the tax system, and limits on discretionary spending. In most cases, the majority of the deficit reduction dollars come from tax reform and entitlement reform. Each plan projects savings that would reduce the annual federal budget deficit by one to two percent of gross domestic product (GDP) by 2020. This is a drastic reduction from today's 7.3 percent of GDP. The plans also project substantial savings to the total public debt. Under these plans, the public debt is projected to fall to 60 percent of GDP, from 73 percent today. While some proponents claim that one plan will reap greater savings than another, the real savings under each is uncertain, as the plans have not been evaluated by a common entity such as the Congressional Budget Office.

The deficit reduction plans share common themes, however. These include: broadening the tax base; lowering tax rates; eliminating tax loopholes and reducing exemptions via reform of the tax code; limiting growth in federal health care spending by raising the eligibility age for Medicare; curbing costs and increasing cost sharing for income beneficiaries; and reforming Social Security by changing benefits, increasing payroll taxes, and increasing the retirement age. And, finally, the plans recommend reprioritizing spending towards more growth-oriented investments while reducing spending on other defense and non-defense programs.

Making changes to spending or revenues will affect everyone. However, the fiscal problems are real and everyone knows that a solution, which some estimate could require reductions that approach four trillion dollars over ten years, is needed to stabilize the US fiscal outlook. It is likely that everyone will have to sacrifice. How those sacrifices will impact children represents an important but somewhat neglected element in the discussion.

Eugene Steuerle: Making Budgetary Space for Children

Many years ago, I started writing and talking about what I called “the incredible shrinking budget for children and working families.” I projected then what we see now: a decline on real spending on children and a significant decline in their share of the federal budget (see Figure 1), not to mention state budgets. There has been an accumulating squeeze on children's programs. Right now, Social Security, Medicare and Medicaid, Defense and interest, excluding any spending on children, are alone scheduled to absorb all of government revenue, even if revenues rise.

³ The views expressed of Ms. Levit are her own, not those of the Library of Congress or the Congressional Research Service.

FIGURE 1: Share of Projected Change in Federal Outlays from 2011 to 2022 Going to Children and Other Major Budget Items (billions of 2011 dollars, except where noted)

Major budget items	2011	2022	Change (2011–22)	Share of change
Social Security, Medicare, and Medicaid	1,464	2,340	876	91%
Interest on the debt	230	500	270	28
Children	376	382	6	1
Defense	711	607	-104	-11
All other outlays	822	738	-83	-9
Total growth	3,603	4,568	965	100%

Source: Julia Isaacs, Katherine Toran, Heather Hahn, Karina Fortuny, and C. Eugene Steuerle. 2012. *Kids' Share 2012: Report on Federal Expenditures on Children through 2011*. Washington, DC: The Urban Institute. <http://www.urban.org/publications/412600.html>.

Note: Percent changes do not sum across columns because they are measured relative to 2011 expenditures in the first two columns and relative to interim 2022 expenditures in the third column.

From another perspective, in 2009, for the first time in all of American history, every dollar of spending had been mandated or committed, sometimes called entitled, before Congress even walked through the door. Every dollar of appropriations – and that’s where much of children’s spending especially in areas like education lies – had to be paid out of borrowing.

That’s the bad news.

But now consider the good news. If children are scheduled to be the big losers under today’s unsustainable budgetary rules, then the flip side is that they can be the biggest winners – long-term winners – of real budget reform, as long as space is created in the budget for many of the new and different things that greater fiscal freedom can make possible.

Does the current deficit debate mean that we’re a poor country that can’t care for its children, that can’t take on new issues, new responsibilities? I’ve done a simple calculation of total federal, state, and local spending, including tax subsidies, divided by the number of households. We are spending \$50,000 per household. This is not a government that’s poor. We may allocate the money badly; but we are not poor.

The crazy aspect of this whole budget problem is that it’s all self-imposed. It’s as if we were a well-educated family that decided to buy some McMansions and work less at the same time and then we complained that we couldn’t afford our food bills. Almost every aspect of our current budget crisis is caused by good things happening to us – especially people living longer lives and improvements in health care. But instead of deciding to work a little longer or pay a little more in taxes to pay for longer lives and better health care, we’re buying the equivalent of a national McMansion we can’t afford – working for a shorter portion of our lives, lowering our taxes, providing more retirement benefits and expanding health care in such a way that it doesn’t increase benefits for consumers. Our long-term budget crisis is not due to some outside force; it’s due to our political response to the good things happening to us.

Economic growth will be the main source of revenues for future spending. We need to capture a fair share of that growth – regardless of whether government spending grows from 30 percent to 35 percent or shrinks to 25 percent of the economy. The current fight over the size of government is small potatoes compared to how we deal with the growth made possible by the economy as a whole. Nevertheless, in this new world, there’s going to be much more emphasis on reallocating, not just adding. If economic growth allows the economy to double in 30 years, for instance, revenues would also approximately double; this

growth represents the most important source of resources for responding to new opportunities, as long as those revenues are not locked in.

And nothing stands a greater chance of capturing the public's vision for that future than making better lives for our children and our grandchildren. Candidates in almost every election speak of the American ideal of opportunity. Nothing – yes, nothing – fits better with that opportunity agenda than the right types of investments in kids.

Moreover, research shows that if you invest early enough in anything, the returns compound over a longer period of time. The analogy between financial investment and investment in children is also intuitively obvious. So, if we're going to invest in people, what better than to invest in the young and in children at early ages?

Patrick McCarthy: Evidence Based Investments for Children⁴

As we think about the future, about how to invest and how to get ahead of our budget situation, we've got to begin by thinking about what principles to use in making tough budgetary decisions. I've got four principles to suggest.

First principle: We need to keep some key questions in mind when making budget decisions: What kind of America do we want 20 to 50 years from now? What do we need to compete? What are the biggest threats to our prosperity? To our vibrancy? And to our social cohesion? I would argue that the biggest threats evolve around the question of whether where you go in life continues to depend on where you start. Because, to the extent that this is a country that works, it works because we believe collectively in opportunity – what sociologists call social mobility. And if we lose social mobility because of poor budgetary decisions, then we start to tear away at the fabric of this country.

Second principle: We ought to invest in children's programs that have multiplier impacts. For example, we know that you can predict lots of rotten outcomes just by knowing that a child grew up in poverty. Improving the financial situation of families, so that children do not grow up in poverty has multiple positive impacts, including impacts on our revenues. That's not a bad investment. Similarly, research tells us that a child who is not reading well by the end of third grade is on a path away from opportunity. So, we should consider investments that guarantee that every child is reading proficiently by the end of third grade. Why? Because it has a multiplier effect; lots of other things depend on learning to read in early elementary school. There are many other examples, including the critical importance of postsecondary education and training for the workforce and the value of being connected to a strong family you can count on. We need to choose investments that make *other* investments more effective. And we ought to avoid cuts that multiply negative effects like cutting from prevention and early intervention programs.

Third principle: We need to shift funding away from programs that harm children to programs that help children. Now, there's often some debate about evidence-based practice; some advocates worry that programs for children are held to a higher standard of evidence of effectiveness than programs that serve other groups. But I'm not talking about the close calls. We now spend billions of dollars of federal and state money on incarceration of parents and incarceration of juveniles. The way that we incarcerate juveniles does not protect the community and does not help kids. It harms kids. Not all congregate care or residential treatment is bad, but the way we use these programs in many states is hugely expensive, and in many instances it is harmful to children. We do need to invest less in programs that have little evidence of success. I'm a firm believer, though, that we've got a lot more learning to do before we decide we'll only fund programs that meet the so-called gold standard of effectiveness established by a randomized clinical trial. That would be a mistake. However, we fund many programs that have had disappointing results in multiple studies, and we need to muster the political will to decide that, while we may be able to continue

⁴ The views expressed by Mr. McCarthy are his own, not those of the Annie E. Casey Foundation.

experimenting in programs with consistently disappointing results, we're not going to spend big bucks on them. We're going to put more dollars into programs that evidence shows work.

Fourth principle: Choose investments that leverage. That means investments that leverage federal and state money together, investments that leverage philanthropy, investments that leverage the private sector, and investments that leverage the faith sector and volunteers.

Now I want to shift to my second topic: What kinds of investments offer the greatest payoffs? If you think about child development, there are two periods that we ought to pay a whole lot of attention to and they intersect. There is the prenatal to age eight period I spoke of before with regard to reading proficiency and another period that might seem less obvious: young people between the ages of 16 and 24. Now I'm not saying that the 9 to 15 year olds are unimportant. The case I'm making is that young people from 16 to 24 are often the parents of the most vulnerable, very young children. And we have a lot of good evidence about what works, and a lot of good opportunities to invest in young people in both development periods—0 to 8 and 16 to 24.

The last thing I want to talk about is the issue of taking successful programs to scale. We tend to approach scaling as if we're trying to open a new franchise. Let's say there is one successful program, and we say, we'll do that again. And we get to ten and then a hundred and then a thousand replications of the program, and we say we've scaled up. But, if the reality is that only 200 of those 1,000 programs are working, that 800 of them are a pale imitation of the first one, that's not scaling up. That's franchising. You also have to figure out where this program fits into the larger systems that spend lots of money on kids – the child welfare systems, the mental health systems, the workforce systems, the education systems. The fundamental way they do business is the secret to scale. The bumper sticker here is that a bad system will trump a good program any day of the week.

Conclusion

In thinking about today's budgetary challenges and the implications for children, Moore recalled the fable about the emperor's new clothes. "The grownups in the story watch and see the situation for what it is but are reluctant to tell the emperor that his new and expensive finery is imaginary, that he is actually parading around naked, thinking that he is wearing fine and fancy robes. The emperor would have continued under this false understanding had not a child spoken up and pointed out to the emperor that he had no clothes. Perhaps we are in an analogous place today. As we near the fiscal cliff at the end of this calendar year, it may take a child, or the interest of a child, to truly motivate others to take action. Let's point out that the emperor has no clothes, or at least no money, and find a solution based on common ground that bodes well for today and especially for the next generation."

About Child Trends

Child Trends is a nonprofit, nonpartisan research center that studies children at all stages of development. Our mission is to improve outcomes for children by providing research, data, and analysis to the people and institutions whose decisions and actions affect children. For additional information, including publications available to download, visit our Web site at www.childtrends.org.

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