Where Does the Money Go?

FEDERAL SPENDING ON YOUNG AMERICAN CHILDREN

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Surprising Findings… Did you know?

- The U.S. spends more on tax subsidies for child care for the richest 20% of American kids than on voucher child care subsidies for the poorest 20%.
- The U.S. spends about twice as much subsidizing housing for the richest 20% of American kids as it does for the poorest 20%.

Introduction

A consensus is growing in the United States that our government under-invests in our children's first years. Early childhood from age 0-8 is a time of tremendous brain development and skill formation that sets kids on a successful path to adulthood. As researchers have evaluated and assessed the needs of the United States' most vulnerable children, they have increased their support for a role for government spending. Social spending on early childhood pays for itself in better long-run outcomes.

Yet, much remains unknown about how much money flows from the federal government to families with young children, and to which families the money goes. This report provides a comprehensive look at 2014 social spending by the federal government on children ages 0-8 and breaks down program spending by family income.

We make sure to account for *all* dollars, whether they come to families through programs such as cash welfare, public housing and childcare vouchers, or through tax subsidies such as the Earned Income Tax Credit, the mortgage interest deduction, or the Child and Dependent Care Tax Credit. This report focuses on four main categories of spending: cash, childcare, housing, and nutrition.

Glossary

Young Child: Any individual below the age of nine.

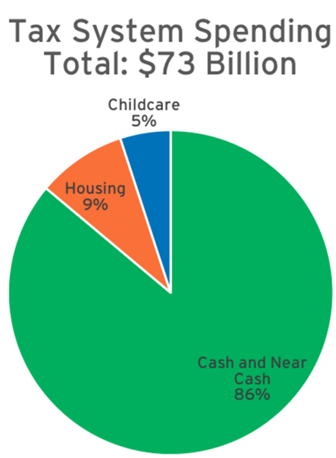
Direct Expenditure: Spending through a specific program (e.g., SNAP, SSI, housing subsidies).

Tax Expenditure: Spending through the tax code in the form of tax deductions on total taxable income or tax credits on total amount owed.

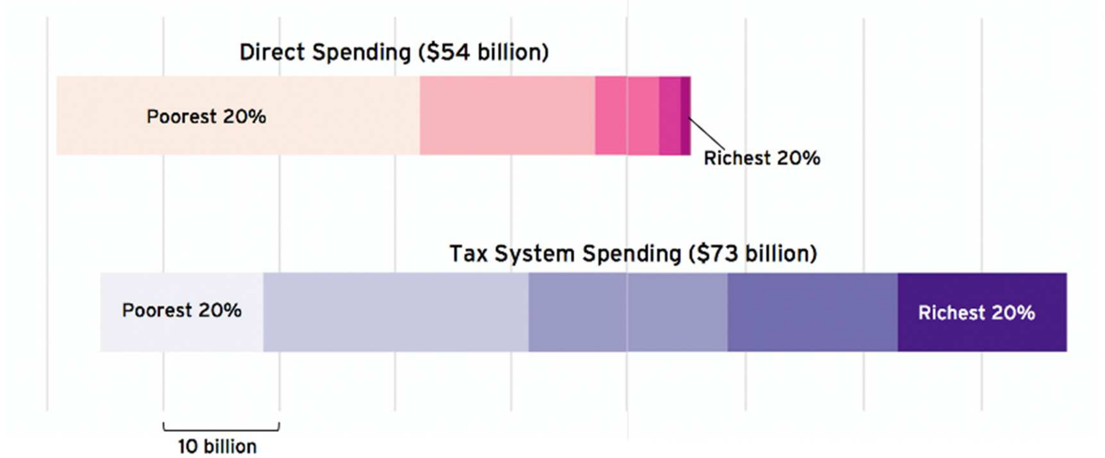
Expenditures on Children: Either direct or tax spending that either benefits young children, benefits households with young children, or increases benefit levels when a household contains a child.

We find that tax system spending exceeds direct social spending on young children, at $73B versus $54B.

- The poorest 20% are the only group that receives most of their social benefits through direct program spending.
- The richest 20% receive 94% of their social benefits through the tax system.



Direct Spending Is More Targeted Toward Lower-Income Children



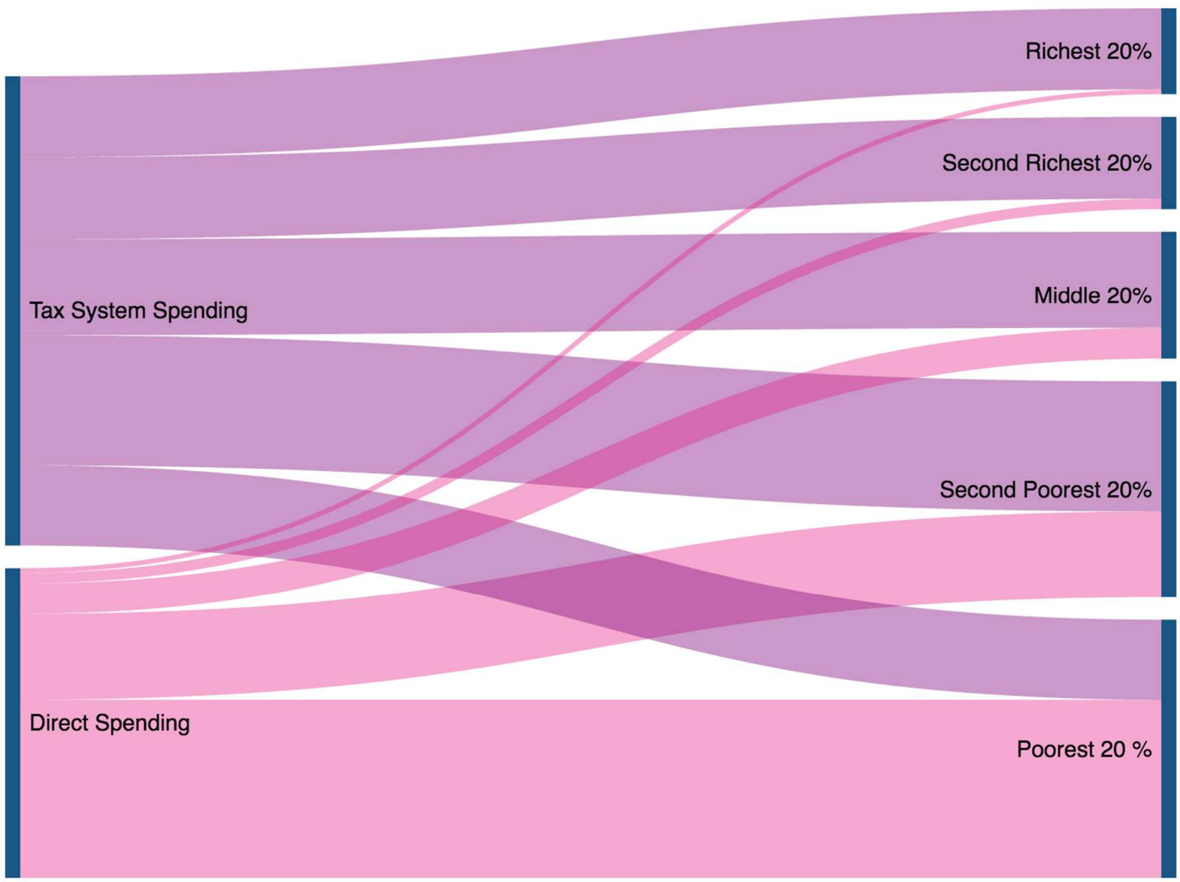
Direct spending programs are well targeted to serve lower-income families, but tax system spending is much more evenly distributed across income groups. Although some tax programs have rules that allocate them specifically to poorer families (for example, the Earned Income Tax Credit), lower-income families are not able to take advantage of nonrefundable tax credits in the same way as richer families because they only provide benefits to families that already owe taxes. Additionally, tax system spending often subsidizes goods on which richer families spend more. For example, the home mortgage interest deduction allows families to deduct any interest that they pay on a home loan from their taxable income. Richer families are likely to buy more expensive houses, so this program benefits them more.

Because of this characteristic, along with increasing marginal tax rates with each income quintile, children in the second income quintile received more money in 2014 than children in the first quintile for every tax expenditure program we researched, other than the Exclusion for Public Assistance Benefits. When it comes to tax expenditures, the poorest 20% of young children miss out.

Additionally, tax system spending has significantly fewer strings attached. While direct spending programs typically put more money toward in-kind goods such as nutrition and housing, the majority of tax system spending is through cash programs that give recipients more flexibility in use.

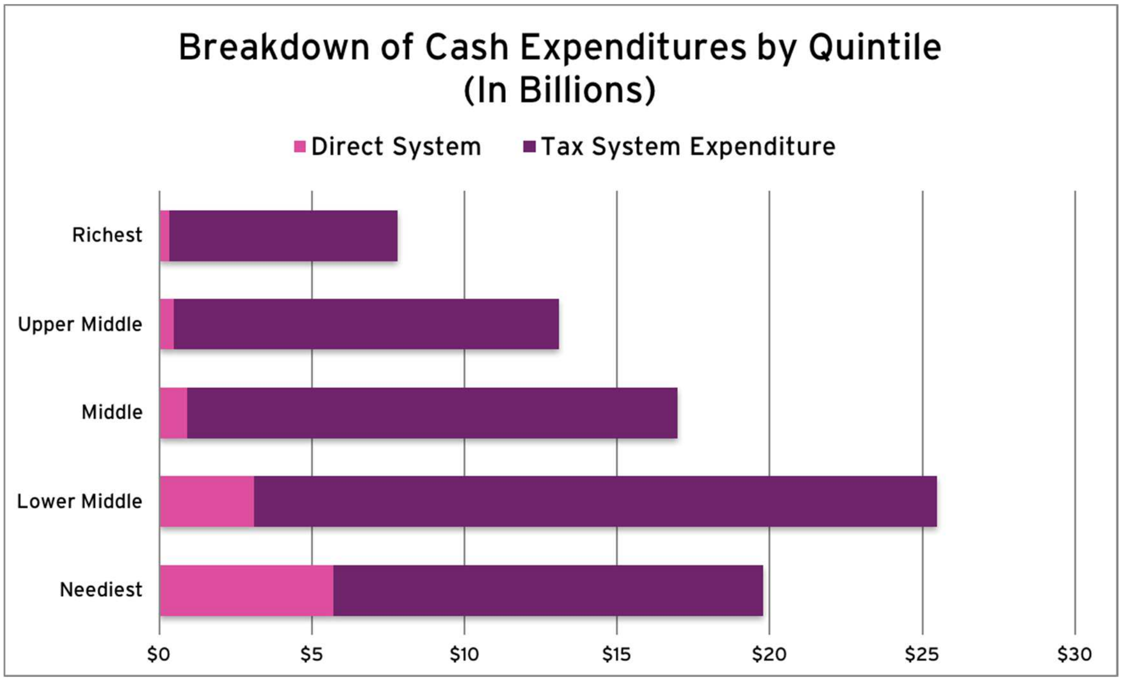
This is significant because the majority of government expenditures on the wealthy come through the tax system, whereas most expenditures on the poor come through direct spending. For example, 94% of expenditures on the wealthiest fifth are through the tax system, and only 31% of expenditures on the poorest fifth are through the tax system. Thus, the wealthy have much more freedom than the poor to spend their government dollars however they choose.

The Flow Of Spending To Each Income Quintile



Cash

The landscape of spending on cash in different income quintiles varies greatly based on whether the expenditure occurs through direct spending or the tax system. While direct system spending is progressive, the tax system spending apportioned to the lower middle 20% ($ 22.3 billion) and middle 20% ($16 billion) far exceeds that apportioned to the poorest 20% ($14 billion).

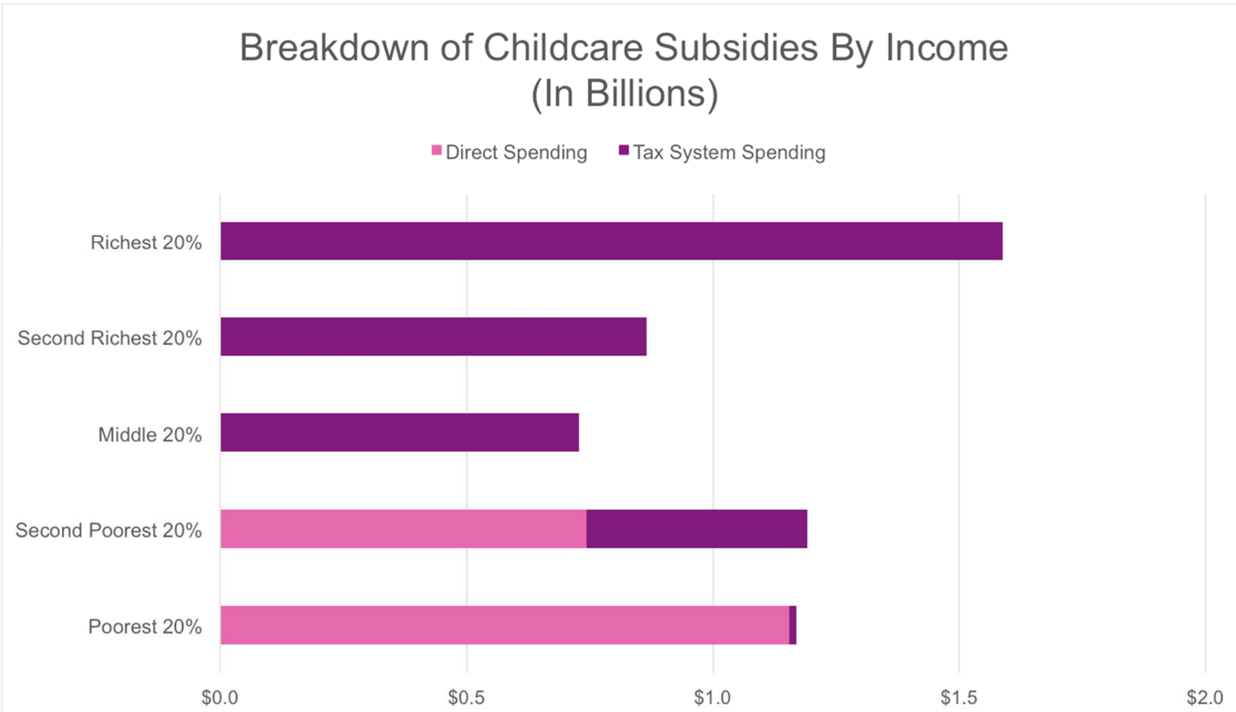


Further, spending on different income levels fluctuates greatly by the tax system programs, including the EITC, Child Tax Credit, Dependent Exemption and Exclusion for Public Assistance Benefits. The middle three quintiles each receive more than double the benefits (on average $6.8 billion) received by the poorest 20% ($2.7 billion) through the Child Tax Credit. The inequality is even more extreme in the Dependent Exemption, through which the top two quintiles receive more than 23 times the benefits (on average $5.8 billion) that the poorest 20% receives ($0.25 billion).

Childcare

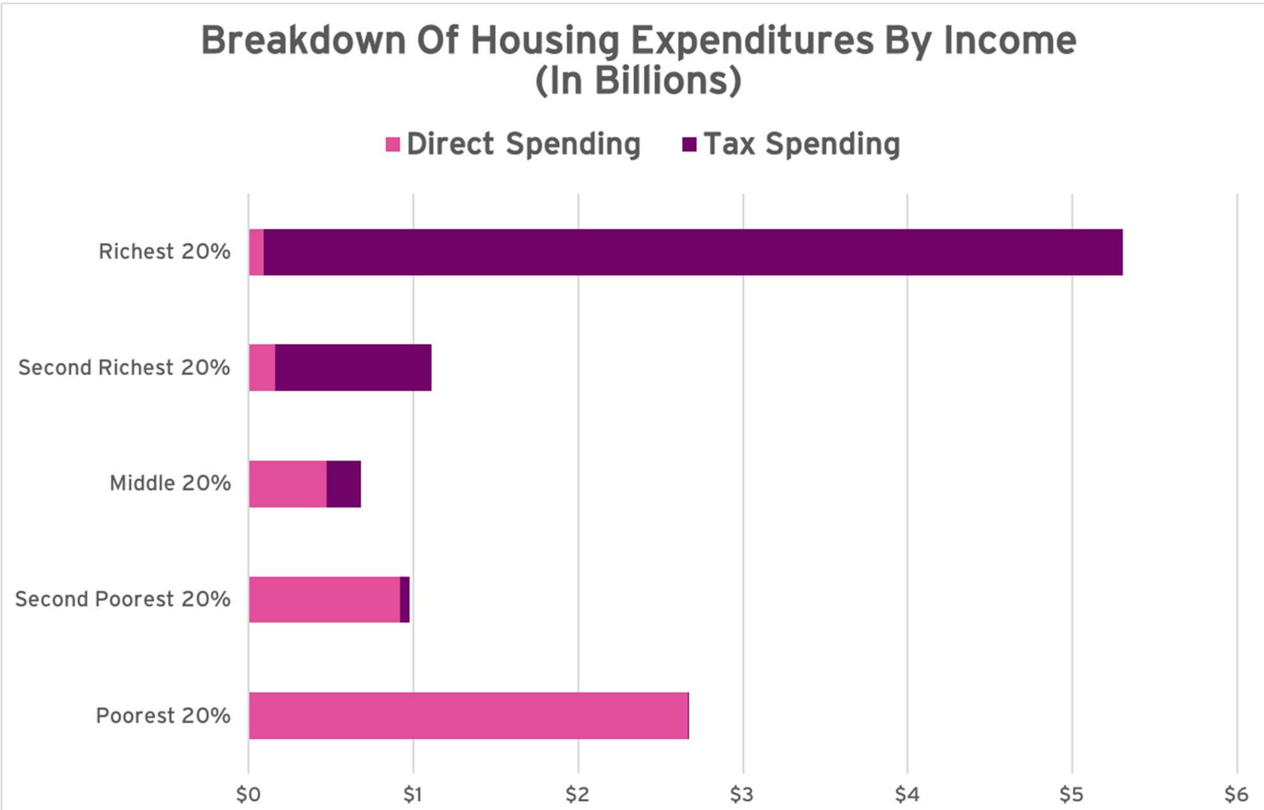
Looking at tax and direct spending subsidies for the purchase of child care on the private market, the top income quintile receives more money for childcare than any other quintile. The poorest 20% of children receive $1.2 billion for this purpose, while the middle 20% receive $728 million, and the richest 20% receive $1.6 billion. Direct subsidies through the Child Care and Development Block Grant are targeted to the two lowest income quintiles, but tax programs such as the Child and Dependent Care Tax Credit go mostly to the richest 20%. This leaves middle-income families with much less government support for child care.

Head Start is an early childhood education program intended to help low-income children and their families. Although the $8.1 billion federal dollars spent on Head Start are restricted by guidelines only to low-income children, due to insufficient funding there are lengthy waiting lists, and only 42% of eligible children get spots.



Housing

Combining tax and direct expenditures on housing, the federal government spends almost $3 billion more on young children in the richest quintile ($5.2 billion) than it does on young children in the poorest quintile ($2.3 billion), making this one of the most regressive categories of spending. Additionally, the federal government spends twice as much on housing for children through the tax code as through direct spending. The home mortgage interest deduction is the largest tax spending program, and 80% of its spending goes to the wealthiest 20% of young children. Since wealthier children are more likely to live in expensive homes, they benefit far more from this tax program than poorer children.

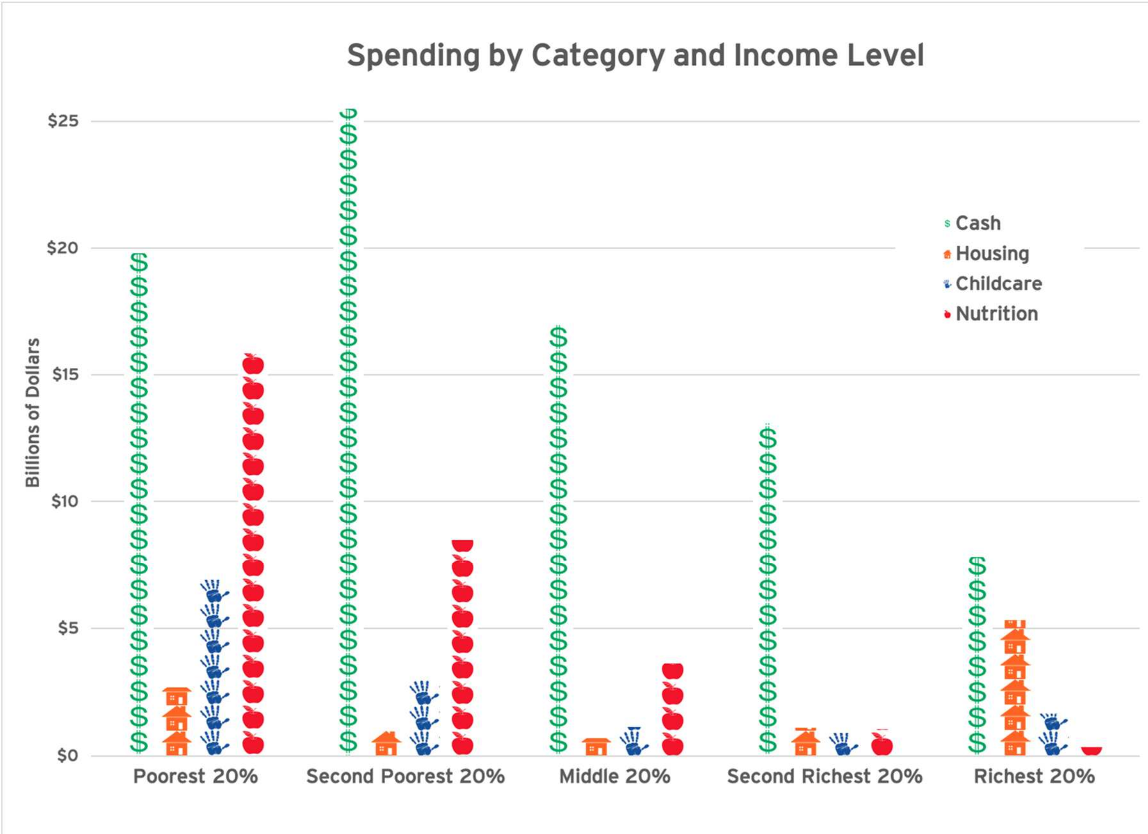


Although direct spending programs such as Housing Choice Vouchers (HCVs), Project-Based Rental Assistance (PBRAs), and public housing are much more targeted to lower income families, the majority of total spending on housing is done through the tax system, which primarily benefits the richest families.

Nutrition

Federal spending on all major nutrition programs decreases by income level. 54% of spending on young children goes to the poorest quintile. Virtually no nutrition spending goes to the upper income quintiles; nutrition is the only program category where for which this is the case. This is due to the absence of tax spending on nutrition programs.

Conclusion


Spending by Category and Income Level
$25
$20
$15
$10
$5
$0
Billions of Dollars
Cash
Housing
Childcare
Nutrition
Poorest 20%
Second Poorest 20%
Middle 20%
Second Richest 20%
Richest 20%

$159,400

Comparing federal spending on young children via direct expenditures versus via the tax system reveals two very different patterns of spending. Direct spending, which comes largely through means-tested programs, is concentrated on children in the poorest two quintiles of family income. Very little of that spending goes to children in the richer income quintiles. On the other hand, tax system spending is distributed more evenly across quintiles, with the lower-middle and middle quintiles receiving the most money. Some tax expenditures, such as the Child Tax Credit, have relatively low income phase-outs and thus tend to concentrate their benefits on the middle quintiles. Others, such as the mortgage interest deduction and the child and dependent care tax credit, are available to the richer quintiles; because households in the richer quintiles both have more money to spend on these categories and have high marginal tax rates, the top quintile actually receives more benefits than do the lower quintiles.

Even though the richest 20% of children receive the least amount of money overall, the government still spends almost $2,000 annually on each child in that income range. At the same time, only 25% of kids eligible for federal housing assistance receive it, and there are lengthy waiting lists for Head Start and child care subsidies as well, because federal funding falls short of total need for these programs targeting the poorest children.

If we reallocated the money spent on the richest 20% of children toward programs that benefit the poorest, we could provide Head Start, child care subsidies, *and* housing subsidies to every young child who needs them. This is just one example of how we could redirect our spending toward the priorities we say we have.

Many existing policies are aimed at investing in the future of American children. The first step in analyzing these policies is to understand where the money that flows from them is going. This report provides the tools to allow policymakers to thoughtfully target spending, in the hope of ensuring that all American children have access to the child care, nutrition, housing, and income they need.