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Policy context for CDAs over the next 20 years

Eugene Steuerle

Institute Fellow and Richard B. Fisher Chair, The Urban Institute, 2100 M St., NW Washington, DC 20037, USA

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ABSTRACT

The United States is on the brink of a paradigmatic change, forced in part by extraordinary budget pressures. Its current budget increasingly de-emphasizes children, investment, and mobility, yet within inevitable budget reform lies a real possibility of a renewed focus on opportunity, of which child development accounts provide an example.

1. Introduction

A discussion of Child Development Accounts (CDAs) would be incomplete without considering the implications of a federal government on the brink of dramatic paradigmatic change. The nation is fast reaching the point where the old ways of doing things obstruct vital government reforms, and new ways—a new paradigm—must be found. This "third fiscal turning," I believe, is inevitable, as today essentially all future revenues (and then some) are already committed to permanent (sometimes labeled "mandatory") programs adopted by past and sometimes dead legislators. This largely deters investment in new and innovative approaches to social welfare policy. A critical aspect of the current paradigm, and one arguably responsible for this pre-commitment of resources, is an underlying political agenda that values (and reinforces) adequacy rather than opportunity.

2. The third turning

The first fiscal turning occurred after the Revolutionary War, when the fledging nation's reliance on foreign support left it in considerable debt and without adequate resources to support the requirements of a government for a rapidly growing nation. A new fiscal paradigm for government was forged through the adoption of the Constitution, the enhancement of the powers of the Treasury Department, the federal takeover of state debts from the Revolution, and the enactment of a national tariff. It wasn't easy: think of the enormity of having to move the nation's capital to Washington, DC to forge compromise. The second fiscal turning happened as the industrial era got into full swing: the growth of great powers domestically and abroad pushed the government itself to become a counterweight to these powers. Once again, a new fiscal paradigm involved enormous changes in institutions and regulations: the adoption of the income tax, antitrust regulation, and the institution of the modern Federal Reserve. And, again, it wasn't easy. Think of the split up of the Republican Party between the Roosevelt progressives and conservatives and the enactment of a constitutional amendment for the income tax. Our nation now faces a third fiscal turning; like the previous turnings at the end of the 18th and 19th centuries, the nation is once again extraordinarily constrained in meeting the new needs and requirements of an ever evolving society.

It would be a mistake to think, as policymakers so often do, that today's constraints are simply repeats of yesterday's constraints. The constraints of the industrial era did not replicate those of the Revolutionary era. In contrast to the first and second turnings, the primary source of the nation's current dilemma is not a lack of institutions, regulations, or resources; instead, it is a problem of how resources are effectively already spoken for in advance. Influenced by broad political pressures, policymakers now spend the future before that future has arrived—and before their opponents can do so. Pre-commitment of resources to programs like retirement and health, for example, is done in a way that ensures that these programs will grow faster than the economy. As these programs continually expand, becoming a larger and larger percentage of GDP regardless of other wants and needs, resources for new programs shrink. Meanwhile, on the other side of the political ledger, tax cuts have eaten into remaining resources.

On our current path, all revenues are pre-committed to programs adopted by past and sometimes dead legislators. Mandatory spending (including interest on the debt) soon absorbs more than 100% of all revenues, which means that discretionary spending of any type has to be paid for out of deficits. Our current challenge is that such a budget provides little give or flexibility. As it turns out, this lack of flexibility also results in declining shares of the budget for investments,

E-mail address: ESteuerl@urban.org.

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including investments in human capital and saving, and for an agenda focused more on opportunity.

Now consider how this pre-commitment of resources is bound up with how we think about social welfare. Our current social welfare system largely pursues an adequacy agenda—that is, essentially, it tries to reduce or eliminate poverty, to provide an adequate amount of food, shelter, and healthcare. The largest items on the adequacy agenda relate to retirement and health (Social Security, Medicare, Medicaid, and health subsidies), which do not require annual appropriations and, moreover, grow automatically along with the growth in new health goods and services, wage growth (Social Security is indexed to grow with wages), and longer lives (more years of benefits).

An adequacy agenda is a perfectly good agenda—but it is not a growth agenda. An adequacy agenda that continues to absorb ever larger portions of revenues, moreover, seems never to be adequate: it tends to squeeze future spending on other new and sometimes more effective programs. Social Security, Medicare, and Medicaid alone are projected to eat up most of the domestic budget if they continue to grow at their scheduled rate, and they already consume most of the additional revenues that are devoted to domestic spending. Meanwhile, other programs for working families and children are discretionary, and too often treated as a leftover in the annual appropriations process.

In sum, an automatically-growing adequacy agenda by its very nature anticipates rather than responds to an unknown future and, at its current level and growth rate, tends to limit spending for other social endeavors. I am not seeking here to overturn the valuable gains of the adequacy agenda, but I am asking how we can respond to new and old problems with new solutions. In this context, the key question for the asset-building field as we muddle through this third turning is this: How can we sustain worthy gains from the adequacy agenda while shifting new resources more toward an agenda of opportunity?

3. The social welfare budget[1]

We might look briefly and in more detail at where social welfare resources are going now. For the purposes of this analysis, it may be useful to consider the federal budget through the lenses of what we might call the children's budget, the investment budget, and the mobility budget. To be sure, these categories of spending are imperfect and overlap to some degree, but they allow us sort out social investment spending and examine its relationship to the larger budget. Each category is closely related to an agenda focused on opportunity.

3.1. Children's budget

We define the children's budget as the amount families with children receive less the amount, if any, they would receive if they did not have children. A recent report (Carasso, Steuerle, Reynolds, Vericker, & Macomber, 2008; annual updates also available) tracks trends in the children's budget from 1960 to 2007, and projects future investment in the children's budget to 2018.

Various measures suggest that the children's budget has increased between 1960 and 2007, but not at nearly the pace of the rest of the federal budget, especially the three major entitlement programs. In terms of real dollars, for example, total spending on children increased from $55 billion to $354 billion, while total federal spending increased from $525 billion to $2730 billion, and the non-child portions of Social Security, Medicare, and Medicaid increased from $60 billion to $1076 billion, or nearly three times as much as federal spending on children. In terms of share of GDP, the children's budget grew by 39%, from 1.86% to 2.59% of GDP, while domestic spending grew from 7.9% to 15.5%, and non-child portions of Social Security, Medicare, and Medicaid increased from 2.0% to 7.9%. The story of the children's budget as a share of domestic spending is a bit more complicated. Between 1960 and 1985, children's spending as a percentage of all domestic spending decreased from 20.2% to 10.1%, but between 1986 and 2007, it increased to 16.2%. In total, children's spending has decreased as a percentage of domestic spending by one-fifth since 1960. During the same time period, in contrast, the non-child portions of Social Security, Medicare, and Medicaid as a percentage of domestic spending increased twofold, from 21.9% to 41.9%.

Projections of future spending suggest that the children's budget will not keep pace with spending on entitlement and other federal spending. Between 2007 and 2018, the children's budget is projected to increase 15.5% from $354 billion to $409 billion, while federal spending is projected to increase 29.9% and domestic spending 36.4% (most of it in increases in entitlement programs). When measured as a share of GDP, the children's budget is actually projected to decline by 13.4%, from 2.59% to 2.24% of GDP, while the non-child portions of Social Security, Medicare, and Medicaid would increase from 7.87% to 9.62% of GDP. Similarly, when measured as a percentage of domestic spending, only 13.8% of GDP is projected to be spent on children's programs in 2018, in contrast to 59.2% for non-child entitlement programs.

A long-range view of children's spending between 1960 and 2018 suggests that the children's budget will continue to decline. While 20% of domestic spending went to children's programs in 1960, only 16.2% supported these programs in 2007, and the share is expected to fall even farther, to 13.8% in 2018. Even more disturbing, as spending on the major entitlement programs continues to increase, the children's budget may be squeezed out of the federal budget altogether.

3.2. Investment budget

The investment budget measures the use of resources to increase future production output or income rather than to finance current consumption. A recent report (Steuerle, Reynolds, & Carasso, 2007) tracks federal investment from 1965 to present and projects future investment to 2017. The report measures five categories of investment,[2] and estimates the proportion of each of these categories that is allocated toward children.

The proportion of the federal budget for investment is small, at just 5% of GDP ($646.1 billion) or 22.6% of total domestic investment spending (excluding defense spending) in 2006. Federal investment in children was smaller still, at 1.6% of GDP or 9.8% of total domestic investment spending. Breaking this down into categories as a percentage of GDP, education and research received 1.3%, physical capital received 0.7%, defense investment 1.3%, work supports 0.3%, and social supports 1.3%. The percentage of GDP that went only to children was 0.4% for education and research, 0.3% for work supports, and 0.9% for social supports, for a total investment in children of 0.4%–1.6%.

Reviewing the trends in federal spending over time suggests that the investment budget is generally becoming less significant. Between 1965 and 2000, although total domestic federal spending actually increased from 9.0% to 15.2% of GDP, the investment budget generally

[1] This section draws on Carasso, A., Reynolds, G., & Steuerle, C. E. (2008). *How much does the federal government spend to promote economic mobility and for whom?* (Economic Mobility Project Report). Washington, DC: The Pew Charitable Trusts; Carasso, A., Steuerle, C. E., Reynolds, G., Vericker, T., & Macomber, J. (2008). *Kids' share 2008: How children fare in the federal budget* (Report). Washington, DC: Urban Institute & New America Foundation; Steuerle, C. E., Reynolds, G., & Carasso, C. (2007). *Investing in children* (Issue Paper #1). Washington, DC: The Partnership for America's Economic Success.

[2] See Steuerle et al. (2007) for definitions of these categories.