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Public Spending on Elders and Children: The gap is Growing

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Abstract
Social welfare programs support the income, education, nutrition, and medical care needs of many of this country's elders and children. Over the past twenty years, however, three times as many children as elders have lived in poverty, and poverty rates for children have consistently exceeded those for the elderly. Given the continued disparity in poverty rates, it is important to track levels of public spending for each group and the generational balance in allocating limited public funds. This Issue Brief evaluates trends in social welfare spending for children and the elderly from 1980 to 2000, and the relationship of national economic trends to public spending patterns.

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Editor's note: Social welfare programs support the income, education, nutrition, and medical care needs of many of this country's elders and children. Over the past twenty years, however, three times as many children as elders have lived in poverty, and poverty rates for children have consistently exceeded those for the elderly. Given the continued disparity in poverty rates, it is important to track levels of public spending for each group and the generational balance in allocating limited public funds. This Issue Brief evaluates trends in social welfare spending for children and the elderly from 1980 to 2000, and the relationship of national economic trends to public spending patterns.

Social welfare programs differ for children and elders

Public spending on social welfare programs constitutes a safety net for children and the elderly. The adequacy of this net, however, depends on the level of public spending, which in turn depends on funding mechanisms and eligibility criteria for each program.

- Social welfare programs can be universal, applying to all children or elderly (for example, Social Security and K-12 education) or means-tested, for low-income people only (for example, Medicaid and food stamps).
- The federal government finances and administers programs such as Medicare and Social Security, while other programs such as K-12 education and Medicaid are administered at the state level and involve joint federal-state funding.
- Most programs serving the elderly are federal and universal. Children's programs, on the other hand, are primarily state-based and, except for education, means-tested. Policies enacted over the past 20 years have reduced the federal contribution to means-tested programs, shifting responsibility for funding to the states. Since many children's programs are means-tested, these trends raise the question of whether children's basic needs are being met.
- A previous study found that spending on children declined during the recession of the early 1980s, while spending on the elderly grew modestly. The authors concluded that during times of economic downturn, children's programs are much more vulnerable than programs for the elderly. The study described below sought to confirm and update these findings.

Study examines social welfare spending on children and elders from 1980-2000

Pati and colleagues examined trends in public spending for children and the elderly from 1980-2000. They collected data from various federal and state agencies and compared spending across time in constant 2000 dollars (to adjust for inflation).

- The investigators included a broad array of social welfare programs that provide cash, in-kind, or medical benefits to the elderly, children, or both groups. Cash programs

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predominate public spending for the elderly; in-kind programs (specifically, funding for K-12 education) predominate spending for children. The table below lists each program included in the analysis.

- The study did not include social welfare spending by private organizations, such as charities. It also excluded programs providing energy assistance, public housing, and tax-based benefits, such as earned income tax credits and tax-deferred retirement accounts.
- To analyze the sensitivity of public spending to larger economic forces, the investigators divided the study period into four categories: 1980-1984 (recession); 1985-1989 (growth); 1990-1994 (recession), and 1995-2000 (expansion). Inflation is present during periods of growth, but not in an expansion.

Spending on universal programs is stable over time, but means-tested programs fluctuate

Social welfare spending for both children and the elderly grew over the study period. However, the distribution of this spending changed over time for children, while it remained stable for the elderly. Universal programs tended to grow consistently, while means-tested programs fluctuated.

- In constant dollars, spending on children increased from $281 billion in 1980 to $459 billion in 2000. Spending on the elderly increased from $380 billion in 1980 to $649 billion in 2000.
- As a percentage of the nation's Gross Domestic Product, social welfare spending on both groups was relatively unchanged, at about 4.5% for children and 6.5% for the elderly.
- The table below shows the distribution of spending in 1980 and 2000. Education represented the majority of public spending on children, accounting for 70.3% in 1980 and 81.2% in 2000. Conversely, programs that provide cash to needy families constituted a smaller part of public spending on children over time. Programs such as TANF/AFDC, OASDI and SSI shrunk from 10.8% in 1980 to 4.5% in 2000.
- Social Security and Medicare represented the majority of spending for the elderly, and both programs grew consistently over time. They constituted 85.7% in 1980 and 91.4% in 2000.

Distribution of Social Welfare Spending on Children and Elders

Program	Spending on Children (%) 1980	2000
K-12 education	70.3	81.2
* Temporary Aid for Needy Families (TANF), Aid to Families with Dependent Children (AFDC) and Emergency Assistance	9.1	2.3
Old Age, Survivors, and Disability Insurance (OASDI)	1.4	1.0
* Supplemental Security Income (SSI)	0.3	1.1
* Food stamps	4.5	2.4
* Child nutrition (school food programs)	2.6	1.6
* Women, Infants and Children (WIC)	0.5	0.9
* Medicaid	3.9	5.0
* State Children's Health Insurance (SCHIP)	0.0	0.6
* Maternal and child health	0.7	0.6
Child welfare	0.6	0.1

Program	Spending on Elders (%) 1980	2000
Social Security	58.7	61.7
* Supplemental Security Income (SSI)	1.0	0.6
Railroad retirement	2.5	1.3
Veterans' pension	1.7	1.1
* Food stamps	0.5	0.2
Medicare	27.0	29.7
* Medicaid	8.1	5.2
Older Americans Act	0.5	0.2

* Means-Tested Programs

Per capita spending gap between elderly and children widens by 20%

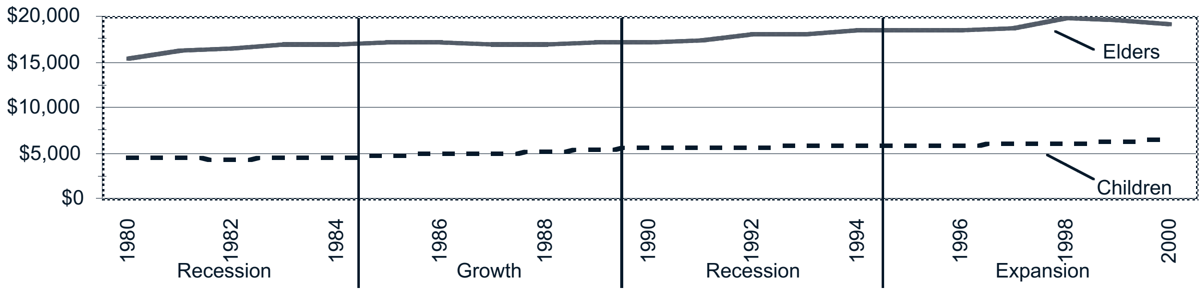
To account for differences in population growth, Pati and colleagues examined per capita social welfare spending. While per capita spending increased for both groups, the gap between the amount spent on the elderly and on children increased by 20% from 1980 to 2000.

- In 1980, the public spent $11,000 more for each elder than for each child ($15,404 vs. $4,464). By 2000 that gap had grown to $13,000 ($19,702 per elder vs. $6,380 per child).
- Most of the widening gap between children and the elderly can be explained by differences in medical spending over time. In constant dollars, per capita medical spending on children grew from $174 in 1980 to $358 in 2000; per capita medical spending on elders grew from $5,402 in 1980 to $7,009 in 2000.

Spending on children is particularly vulnerable during economic downturns

The investigators analyzed how spending levels for children and the elderly changed during periods of growth and recession, and identified specific policy changes that affected public spending. The figure below shows per capita spending for each group in each period, in constant dollars.

Per Capita Social Welfare Spending On Children and Elders



- Children were particularly hard-hit in the recession of 1980-1984. Substantial cuts in means-tested programs were authorized by the 1981 Omnibus Budget Reconciliation Act (OBRA) and the Economic Recovery Tax Act. As a result, Medicaid and AFDC spending for children declined by 10.7% and 7.2% during this recession.
- In the recession of the early 1990s, differences in per capita spending on the elderly and children increased, as the growth of spending on children failed to keep pace with that of the elderly. During that recession, per capita spending (in constant dollars) increased 6% for children and 7.7% for elders.
- Two public policy changes—the Family Support Act of 1988 and the 1996 Personal Responsibility and Work Opportunity Reconciliation Act—created stronger work requirements for welfare recipients and reduced enrollment in cash programs, food stamps and Medicaid. Largely as a result of implementing these policies, social welfare spending on poor children through AFDC/TANF and Medicaid peaked in 1993 and steadily declined thereafter. Spending levels returned to their 1993 levels by 1999, partly due to the implementation of the new SCHIP block grants in 1998.

Federal funding and administration provides stable base for elderly programs

The growing gap between spending on the elderly and children may stem from the differences in how social welfare programs are structured. Most social welfare programs for the elderly are federal, while most programs for children are state-based.

- Although all public funding is affected by larger economic forces, the federal budget is bigger, and better able to withstand short-term economic downturns than state budgets.
- The federal government can, and does, run budget deficits, something states cannot do. State governments cannot deficit-spend as revenues decline, and must cut spending to balance their budgets.

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POLICY IMPLICATIONS

This study indicates that public spending on children is sensitive to larger economic forces. Policies that limit mean-tested programs can have a differential impact on children, especially on spending for children's medical care. Conversely, spending on the elderly is relatively resistant to economic forces, and has not been the target of policy changes enacted in response to economic forces.

- Spending on children is especially vulnerable in economically slow periods. Whereas the elderly have a basic guarantee of support regardless of economic and political changes, funding for children's welfare remains vulnerable to these fluctuations.
- The continued transfer of responsibility for funding of children's social welfare programs from the federal government to the states endangers the stability of the safety net, especially for health insurance. The majority of states now face budget shortfalls that will limit their ability to meet the needs of poor children.
- The recent expansion of Medicare to include prescription drug coverage will most likely widen the spending gap between the elderly and children.
- Persistent disparities in the proportion of children versus elders living in poverty argue for increased spending on children's welfare. Rather than have one vulnerable group compete with the other for resources, policymakers should instead look for ways to stabilize funding for children and assure that their basic needs are met.

This Issue Brief is based on the following article: S. Pati, R. Keren, E.A. Alessandrini, D.F. Schwarz. Generational differences in U.S. public spending, 1980-2000. Health Affairs, September/October 2004, vol. 23, pp. 131-141. Also, see earlier study: A.E. Benjamin, P.W. Newacheck, and H. Wolfe. Intergenerational equity and public spending. Pediatrics, 1991, vol. 88, pp.75-83.

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