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EXECUTIVE SUMMARY

The Economic Case for Smart Investing in America's Youth

by Melissa S. Kearney and Luke Pardue

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The United States spends a relatively small sum of public funds on children, both on a per capita basis and as a share of all spending. Much more government funding is allocated to spending on the elderly than on children—this claim is especially true for federal spending, but it holds even at the state and local levels. Economists Melissa S. Kearney and Luke Pardue observe that patterns of public spending run counter to patterns of social returns: research has consistently found that public spending on children of all ages yields high social returns. In fact, such spending has often improved the health and education of targeted youth to the extent that, in adulthood, they are more economically successful, pay more in tax revenue, and receive less from government assistance programs than their non-targeted peers. The authors argue that creating a more resilient economy requires building a healthy, productive next generation. Investing in kids—specifically via evidence-based programs targeted at youth from low-income backgrounds—is an effective way to achieve that goal.

America's Spending on Children

In 2019, pre-pandemic, US spending on federal programs directly allocated to children totaled $408 billion, or $5,595 per child. Spending was higher for programs serving adults 18–64 years old, at $5,616 per person, and was the highest for programs serving the elderly, at $29,189 per individual 65 years or older. On a per capita basis, the federal government spent $5.20 on the elderly for each dollar spent on children.

Looking at spending patterns as a share of the federal budget, rather than per capita, 9.2 percent of federal outlays were devoted to children in 2019. To put this figure in context, mandatory spending on the elderly comprised 35.5 percent of federal outlays. Spending on adults excluding mandatory spending on those 65 or older comprised 25.4 percent of all outlays. As the federal debt and interest rates continue to rise, projections suggest that by next year, the US will devote a larger share of outlays to interest payments on the national debt than to spending on children.

The largest forms of federal spending on children are health and nutrition programs (43.2 percent of spending on children) including Medicaid, the Supplemental Nutrition Assistance Program (SNAP), and income-support programs (36.4 percent of spending) including the Child Tax Credit and the Earned Income Tax Credit. These programs provide income and in-kind support to millions of low-income families with children. But, in recent decades, the eligibility criteria for these programs have been expanded, making the programs less targeted from an income perspective. A greater portion of this spending now goes to middle-class families: from 1979 to 2016, the share of all means-tested transfers received by households in the middle 60 percent of the income distribution rose from 27 to 49 percent.

A large share of public spending on children comes from state and local governments, since those sub-national levels of government are primarily responsible for funding K–12 schooling. The authors calculate that even after incorporating outlays from state and local governments—and including estimates of private philanthropic spending—total per capita public spending is still much higher on the elderly than on children in the US. They calculate that total spending in 2019 inclusive of all four sources—federal, state, local, and philanthropic—comes to $17,401 per child, compared to $30,456 for individuals over the age of 65. $1.75 is spent on the elderly for every dollar spent on children.

Public Spending on Children as Social-Impact Investing

This tilt in federal spending away from children runs counter to the evidence from a large body of rigorous research that spending on children yields long-term social returns. Economic research has consistently found significant long-run returns from programs aimed at improving the health, nutrition, and education of children from low-income families. A few examples highlighted by the authors:

- **Expansions of Medicaid to young children has significantly improved affected children's adult health.** Looking at the long-term impact of public health-insurance expansions during the 1980s and 1990s, economists have found that children who gained eligibility for Medicaid paid more in cumulative taxes and collected less in income support payments (such as the Earned Income Tax Credit) by age 28 than similar children did in states that did not expand access to such programs.

- **Access to nutrition programs early in a child's life has led to sustained improvements in health and human capital.** Researchers studying the county-level rollout of the Food Stamps Program (which preceded SNAP) between 1961 and 1975 found that children who gained access to benefits before age five experienced a significant increase in human capital and economic self-sufficiency in adulthood, as compared to similar children who were not exposed to the policy rollout.

- **Offering high-quality preschool opportunities to children in low-income families has been found to boost educational outcomes and raise earnings when these children enter the workforce.** Research comparing the long-term outcomes for pairs of siblings in which one attended Head Start and the other did not find that siblings who attended Head Start saw greater high school graduation and college attendance rates; reduced "idleness," crime, and teen parenthood; and improved adult health.

The authors describe a comprehensive study that considers 133 public tax and spending programs, calculating the ratio of recipients' net benefits to the long-term net cost to the government—a ratio referred to as the marginal value of public funds (MVPF)—drawing on causal estimates from the literature. This comprehensive analysis illuminates two important points. First, not all programs targeting youth yield high returns. Publicly funded childcare programs, for example, have been found to have negative effects on children from high-income families who would have otherwise spent time in highly enriched environments. Second, programs targeting older children often yield returns as large as funds spent on the youngest children. For instance, expanding college financial assistance to low-income students through Pell Grants increases college completion, generating savings large enough to pay for the program outlays.

These findings underscore the need to smartly invest in youth. It is not simply the case that all spending on youth necessarily yields high returns, nor is it true that only spending on young children yields high returns. But it is the case that well-designed and targeted programs targeting youth tend to yield high returns, and much higher returns than are yielded by programs aimed at older Americans.

A Call for Smarter Investing in America's Youth

Despite ample evidence demonstrating that targeted spending on youth tends to offer the highest social returns, the United States devotes relatively few public dollars to investments in kids. This short-sighted and counterproductive approach to public spending will result in a less healthy, less productive future population. Targeted spending on youth from early childhood through young adulthood is one of the best investments in a skilled workforce the country can make. The call for expanded investments in children should be applied not only to public programs but also to philanthropic and community investments. As a matter of social values, there are good reasons to bolster the environment of children growing up in economically disadvantaged settings. However, even from a purely economic perspective of impact investing, the case for evidence-based investments in youth is strong.

ABOUT THE AUTHORS

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Melissa S. Kearney is the Neil Moskowitz Professor of Economics at the University of Maryland. She is also director of the Aspen Economic Strategy Group; a research associate at the National Bureau of Economic Research; and a nonresident senior fellow at the Brookings Institution. She serves on the board of directors of MDRC and on advisory boards for the Notre Dame Wilson-Sheehan Lab for Economic Opportunities and the Smith Richardson Foundation. Kearney previously served as director of the Hamilton Project at Brookings and as co-chair of the Massachusetts Institute of Technology J-PAL State and Local Innovation Initiative. Kearney's research focuses on poverty, inequality, and social policy in the United States. Her work is published in leading academic journals and is frequently cited in the press. She is an editorial board member of the American Economic Journal: Economic Policy and the Journal of Economic Literature; she was previously co-editor of the Journal of Human Resources and a senior editor of the Future of Children. Kearney teaches public economics at both the undergraduate and PhD levels at the University of Maryland. She holds a BA in economics from Princeton University and a PhD in economics from MIT.

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Luke Pardue is an economist at Gusto, a payroll and HR platform for small and medium-sized businesses. He obtained his PhD in economics from the University of Maryland and, before joining Gusto, worked at the Federal Reserve Board and the US Census Bureau. His research focuses on finding policies and practices that help businesses, workers, and their families thrive. As an AESG economic policy fellow, Luke writes data-based explainers of current policy issues as part of the "In Brief" series. His work and commentary have been featured in outlets including the New York Times, Washington Post, and Wall Street Journal. Luke currently resides in Washington, DC.

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