

Statement of
Alice M. Rivlin
Director
Congressional Budget Office
Before the
Select Committee on Children, Youth, and Families
U.S. House of Representatives

April 28, 1983

The number of children living in low-income households has risen sharply in the last few years and is likely to remain high for the rest of the decade. This rise has been fueled by such factors as an increase in the number of single-parent households and high rates of unemployment. At the same time, federal spending on children and families--especially those with low incomes--has recently declined in real terms, and under current policies it will continue to fall. Because of these reductions in total spending during a period when the low-income population has increased, the average benefits received by families have fallen by an even larger proportion than total spending levels, and will continue to fall.

My remarks today will cover three major topics:

- o Demographic and economic trends that have influenced family composition and incomes over the recent past;
- o Trends in federal spending on children and their families; and
- o The outlook for the future.

DEMOGRAPHIC AND ECONOMIC TRENDS AFFECTING CHILDREN AND FAMILIES

The age structure of the American population has undergone major changes in the last 30 years, resulting from the postwar baby boom and the period of relatively low birthrates that followed it. The proportion of the population below 18 years of age rose from about 31 percent in 1950 to a

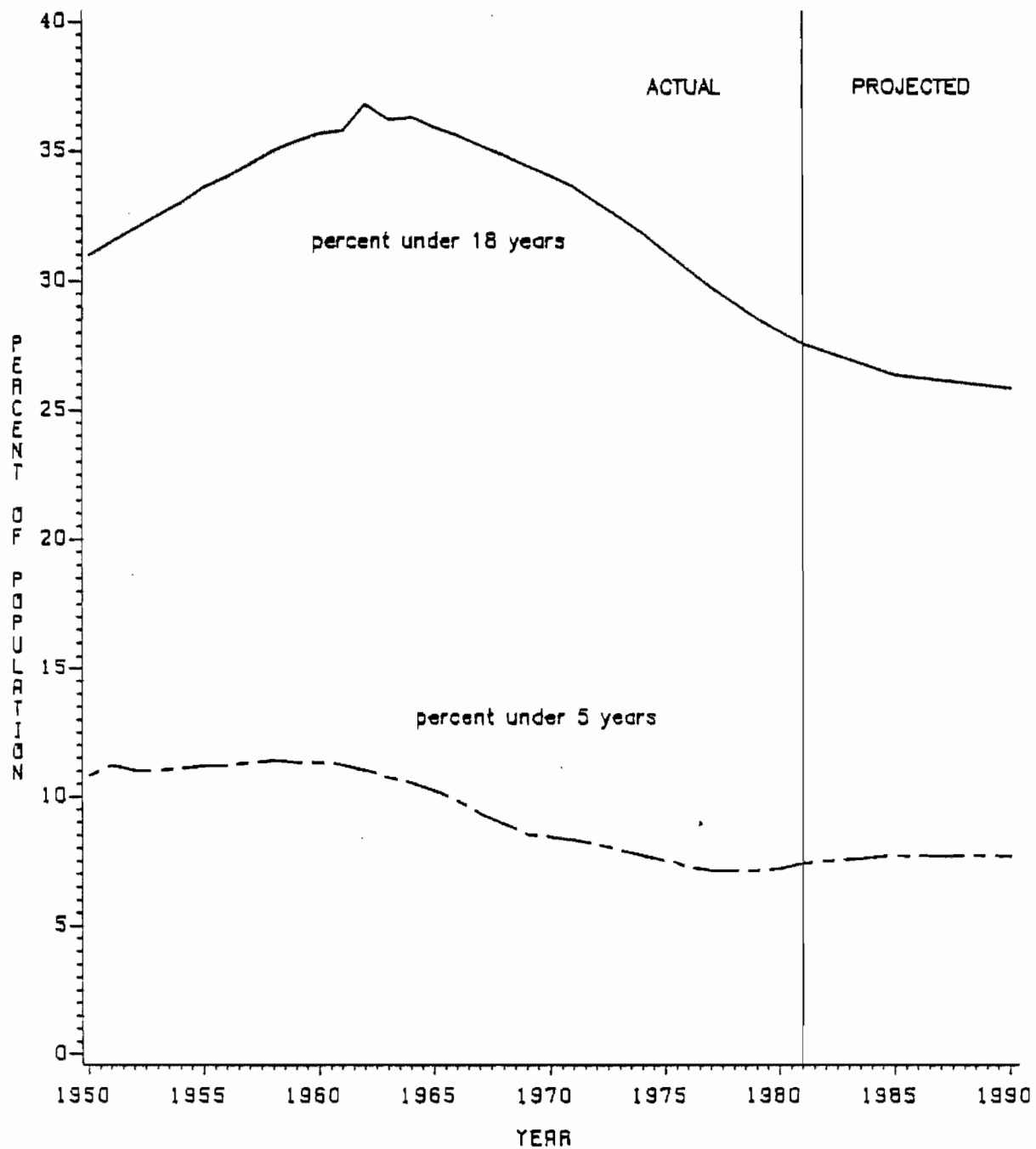
peak of over 36 percent in the early 1960s; since then, the under-18 group has fallen to a new low of less than 28 percent today (see Figure 1). Between the late 1950s and 1979, the proportion of the population under age 5 fell comparatively more, but there has been a slight upturn since then, as the baby-boom generation entered its child-bearing years.

These fluctuations in the age structure of the population have had a major impact on American life. As the baby-boom generation grew up, its size necessitated increased public spending, first on schools and then on colleges and universities. More recently, the entry of this generation into the labor force contributed to the high unemployment rates of the late 1970s, and its formation of new households may have helped to fuel the housing boom of the same period.

The maturing of the baby-boom generation into its most productive work years, and the relatively small size of the following generation, could free many social resources formerly devoted to children for other purposes, without a decline in the relative level of services going to today's children. On the other hand, although children are declining as a proportion of the population, other social and economic trends have caused the number of low-income children to grow, which may increase the need for public spending targeted toward them.

FIGURE 1

Percent of U.S. Population in Two Age Groups: 1950 - 1990



The recent growth in the number of children under 18 in poverty followed a period of major decline. ^{1/} Over the 1960s, poverty rates for children fell from almost 27 percent to 14 percent (see Figure 2). The proportion of children who were poor rose slightly over the 1970s, however, and in the last three years it has risen dramatically--from 16 percent to almost 20 percent. More than one-fourth of all children now live in households with incomes below 125 percent of the poverty level--an income equivalent to about \$9,000 for a family of three, for example.

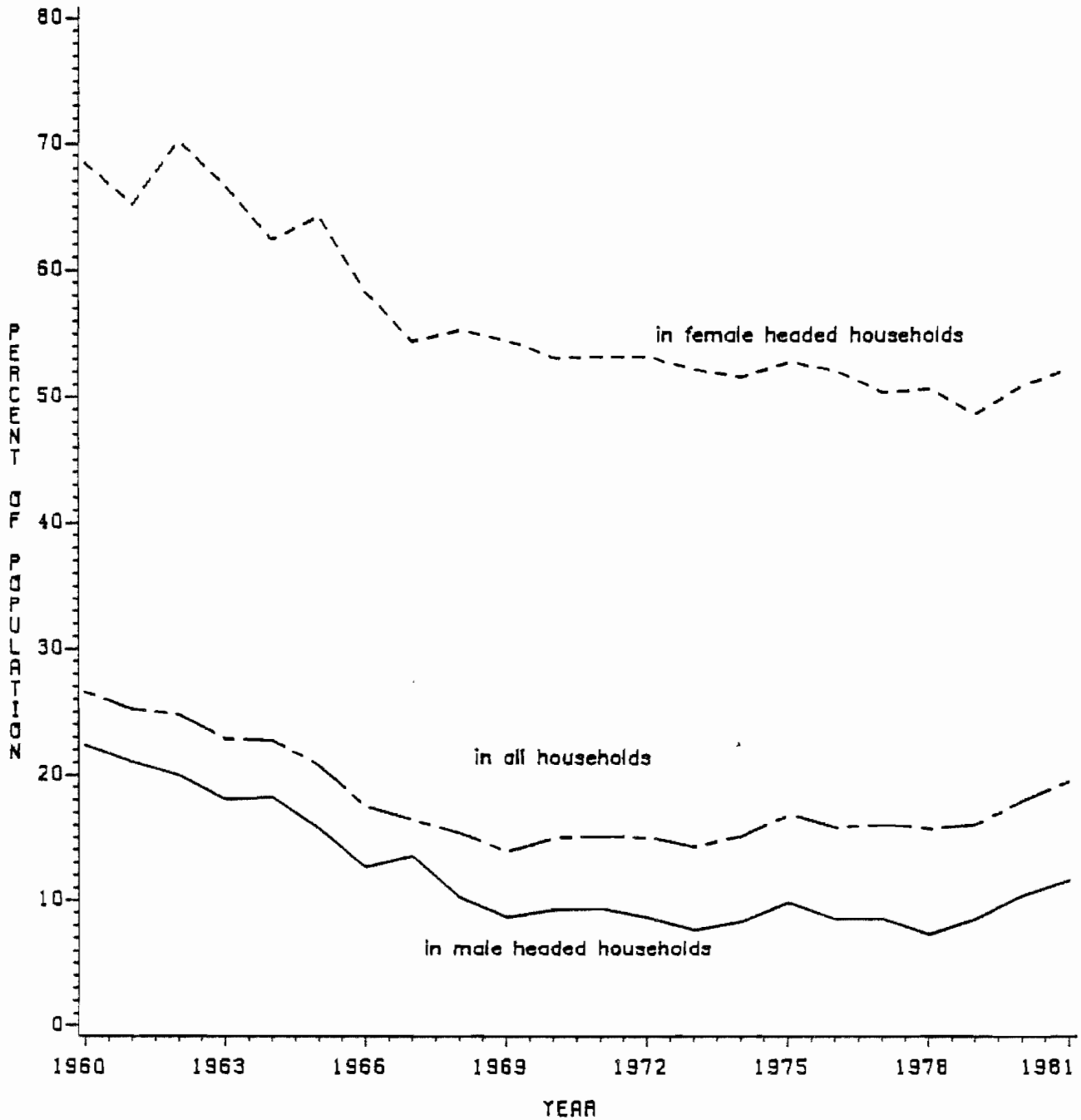
Two major factors account for much of this recent increase in the number of children in poverty: a rise in the proportion of children living with only one parent, and the current recession. Since 1970, the proportion of children in single-parent families has grown from about 13 percent to about 21 percent. About 90 percent of children in single-parent families live with their mothers, and over half of all children in households with female heads were in poverty in 1981.

Rising unemployment rates have been even more important in increasing the number of children in poverty during the past three years. The

1. Official poverty rates are determined by comparing families' cash incomes with thresholds that vary by family composition and other factors. Consequently, they do not reflect the value of in-kind benefits such as food stamps.

FIGURE 2

Percent of U.S. Population under 18 Living in Families Below the Poverty Line by Type of Household: 1960-1981



unemployment rate peaked at over 10 percent this year, compared with average rates of less than 5 percent in the 1960s and just over 6 percent in the 1970s. Families with an unemployed parent are three times as likely to be in poverty as those with no unemployed adults--18 percent of the first group are poor, compared with 6 percent of the latter. In addition, slow economic growth has held down incomes even for those who are employed--for example, through reduced hours of work.

TRENDS IN FEDERAL SPENDING ON CHILDREN AND THEIR FAMILIES

The federal government funds benefits for children through two types of programs: entitlement programs, which provide benefits to all applicants who meet the program's eligibility rules; and appropriated programs, whose spending levels depend primarily on the funds allocated by the Congress.

Entitlement Programs

The federal government spent about \$38 billion on families with children through entitlement programs in 1982 (see Table 1). ^{2/} The largest single program aiding children is Social Security, which provided almost \$11 billion in benefits in 1982 to children and families with a deceased or

2. Only programs providing benefits specifically for children and their families have been included in this estimate and in the subsequent discussion.

TABLE 1. EXPENDITURE LEVELS FOR SELECTED ENTITLEMENT PROGRAMS PROVIDING BENEFITS FOR CHILDREN AND FAMILIES IN 1982 (In billions of dollars)

	Total Expenditure Level	Outlays for Families with Children <u>a/</u>	Percent to Families with Children
Means-Tested			
AFDC	8	8	100
Food Stamps	11	8-9	75-80
Child Nutrition	3	3	100
Medicaid	17	4-6	25-35
Supplemental Security Income	8	1	8
Veterans' Pensions	4	<u>b/</u>	<u>b/</u>
Non-Means-Tested			
Social Security (OASDI)	154	11	7
Veterans' Compensation	9	<u>b/</u>	<u>b/</u>
Civil Service Retirement	19	<u>c/</u>	<u>d/</u>
Railroad Retirement	6	<u>c/</u>	<u>d/</u>

- a. Except for food stamps, estimates of total benefits for families given here include only benefits for children and for adults who qualify because of the presence of one or more children in the household. Benefits received by other adults in the family who themselves qualify for benefits (because of disability, for example) are excluded. In the case of food stamps, total benefits going to families with children have been included.
- b. Most veterans' benefits are paid to living veterans and their families, with the majority being paid to veterans rather than other family members; for these families, the data do not allow benefits for children under 18 to be identified. For survivors of veterans, approximately 15-20 percent of benefits are paid to families with children.
- c. Less than \$500 million.
- d. Less than 5 percent.

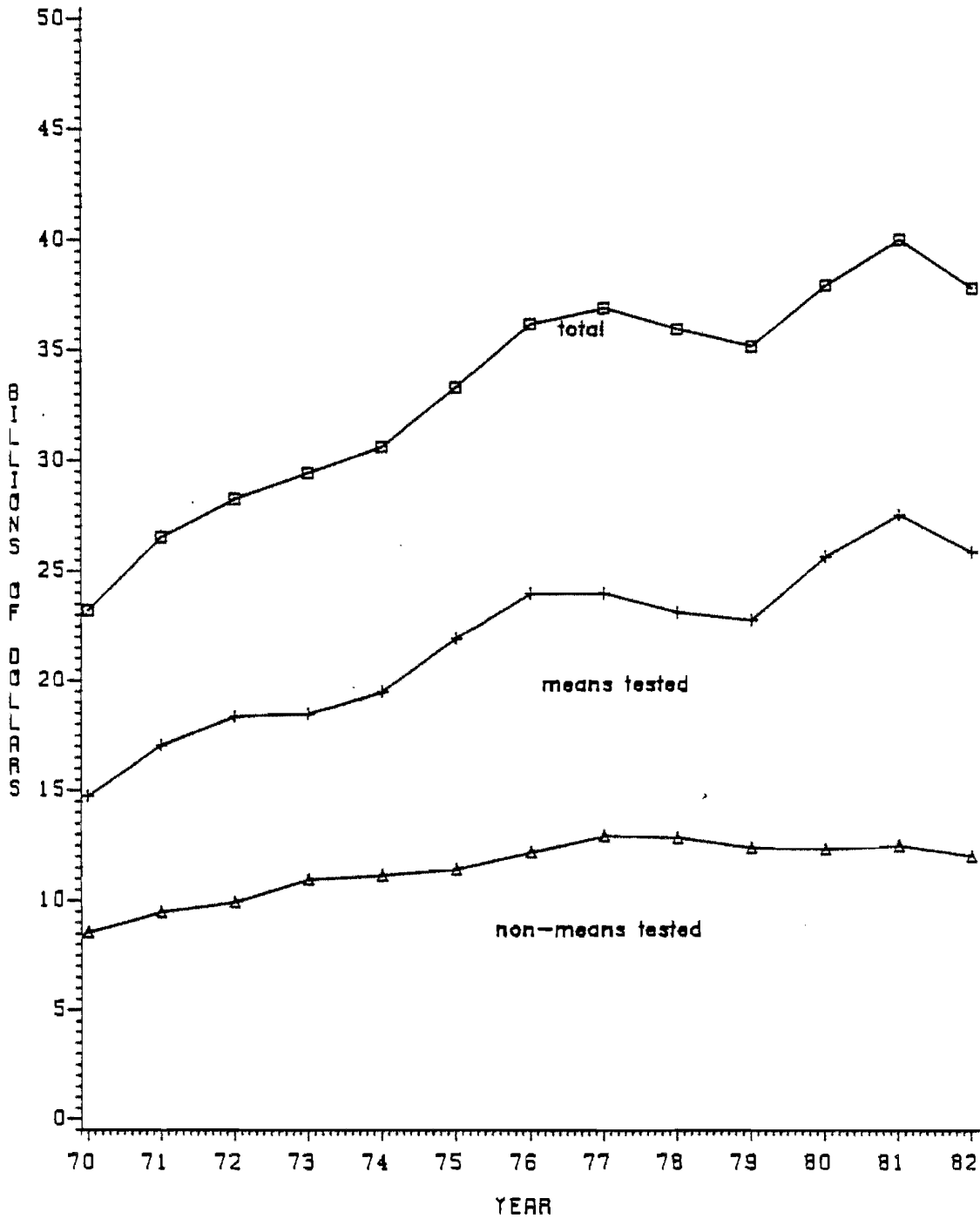
disabled parent. 3/ Unlike Social Security, most other major entitlement programs aiding families with children are means-tested--that is, they pay benefits only to those with incomes and assets below specified levels. Examples include Aid to Families with Dependent Children (AFDC), which in 1982 paid about \$8 billion to families with single or unemployed parents; food stamps, which provided between \$8 billion and \$9 billion worth of food coupons to families with children; and Medicaid, which paid for about \$5 billion in medical services for these families. 4/

Spending on these programs increased rapidly in the 1960s and early 1970s when Medicaid and food stamps were started and when the AFDC program was expanded substantially. Between 1970 and 1975, spending for all entitlements serving children rose by more than 40 percent in real terms, and outlays for means-tested programs more than doubled (see Figure 3). Between 1975 and 1979, however, combined outlays for these programs stayed almost constant in real terms.

-
3. Except for food stamps, estimates of total benefits for families given here include only benefits for children and for adults who qualify because of the presence of one or more children in the household. Benefits received by other adults in the family who themselves qualify for benefits (because of disability, for example) are excluded. In the case of food stamps, total benefits going to families with children have been included.
 4. These figures represent the federal share of spending. States also contribute almost as much to AFDC and Medicaid.

FIGURE 3

Federal Spending on Selected Entitlement Programs for Children and Families: 1970-1982 (in billions of 1982 constant dollars)



In the last three years, benefits have declined significantly relative to the number of potentially eligible families, and in 1982 alone spending levels fell by about 5 percent in real terms. Two offsetting factors have affected outlay levels in this period. On the one hand, the number of low-income families has increased considerably since 1979, causing both eligibility and applications for benefits to rise. On the other hand, major cuts in these programs would have reduced outlays on them substantially had the recession not increased the number of beneficiaries. Even so, between 1981 and 1982, nominal expenditures for AFDC and food stamps for families with children each dropped by about \$200 million.

Appropriated Programs

Many of the major appropriated programs for children and their families were initiated in the 1960s and 1970s, and funding accordingly increased rapidly during that period. For example, Chapter I (formerly Title I), the federal program supporting compensatory education for poor and underachieving students, was established in 1965 and reached a peak funding level of \$3.2 billion in 1979. Similarly, federal support for the education of handicapped children grew rapidly over the 1970s, from \$85 million in 1970 to \$1 billion in 1980, in substantial part because of the Education for All Handicapped Act of 1975. The Special Supplemental Food Program for Women, Infants, and Children (WIC), started in 1973 to provide nutritious foods to low-income women before and after childbirth and to their infants

and young children, reached a funding level of \$740 million in 1980. Funding for services for children and their families in the areas of housing, education, social services, nutrition, and health totaled roughly \$15 billion in 1980.

Since 1980, trends in the funding of appropriated programs for children have varied greatly from program to program. Nominal funding for these programs taken together changed relatively little between 1980 and 1982, but that constancy masks a variety of increasing, decreasing, and level-funded programs. In two budget subfunctions--health and social services--total appropriations remained roughly constant, but in each, increases in some programs compensated for decreases in others. In social services, for example, increases in Head Start tended to offset decreases in the Human Services Block Grant (Title XX). Total funding for elementary and secondary education, on the other hand, decreased by more than \$1 billion--about 15 percent, in nominal terms. Funding for WIC increased by over \$150 million because of Congressional action during the 1980-1982 period, while federal housing expenditures for families with children rose by almost \$1.5 billion, largely reflecting subsidy commitments made before 1980.

The effects of these increases and reductions in appropriated programs cannot be estimated fully, because information on the effectiveness of the diverse programs is sometimes incomplete and because the impact of many

of the cuts will depend on the responses of states and localities. Nonetheless, the impact of some of the programs on children and their families--and, accordingly, the effects of changes in funding levels--is reasonably clear. Research has indicated, for example, that Chapter I services have improved the academic performance of low-achieving students, so cuts in this program could impede continued improvement in the educational achievement of disadvantaged students. Similarly, a growing body of medical research links the WIC nutrition program with reduced infant mortality, reduced incidence of low birth weight, and avoidance of abnormal infant development. The expansion of the WIC program over the past three years might therefore be expected to extend these benefits to additional children and families.

PROJECTED DEMOGRAPHIC, ECONOMIC, AND EXPENDITURE TRENDS

The number of children living in poverty will probably remain high in the near future and may continue to increase, in part because of demographic factors. The Bureau of the Census projects that the number of births per year will continue to rise, resulting in an increase in the number of young children. In addition, the proportion of children living in single-parent households is projected to rise to about one-fourth by 1990.

The performance of the economy in the next few years will also be crucial in determining the number of poor children. The CBO currently

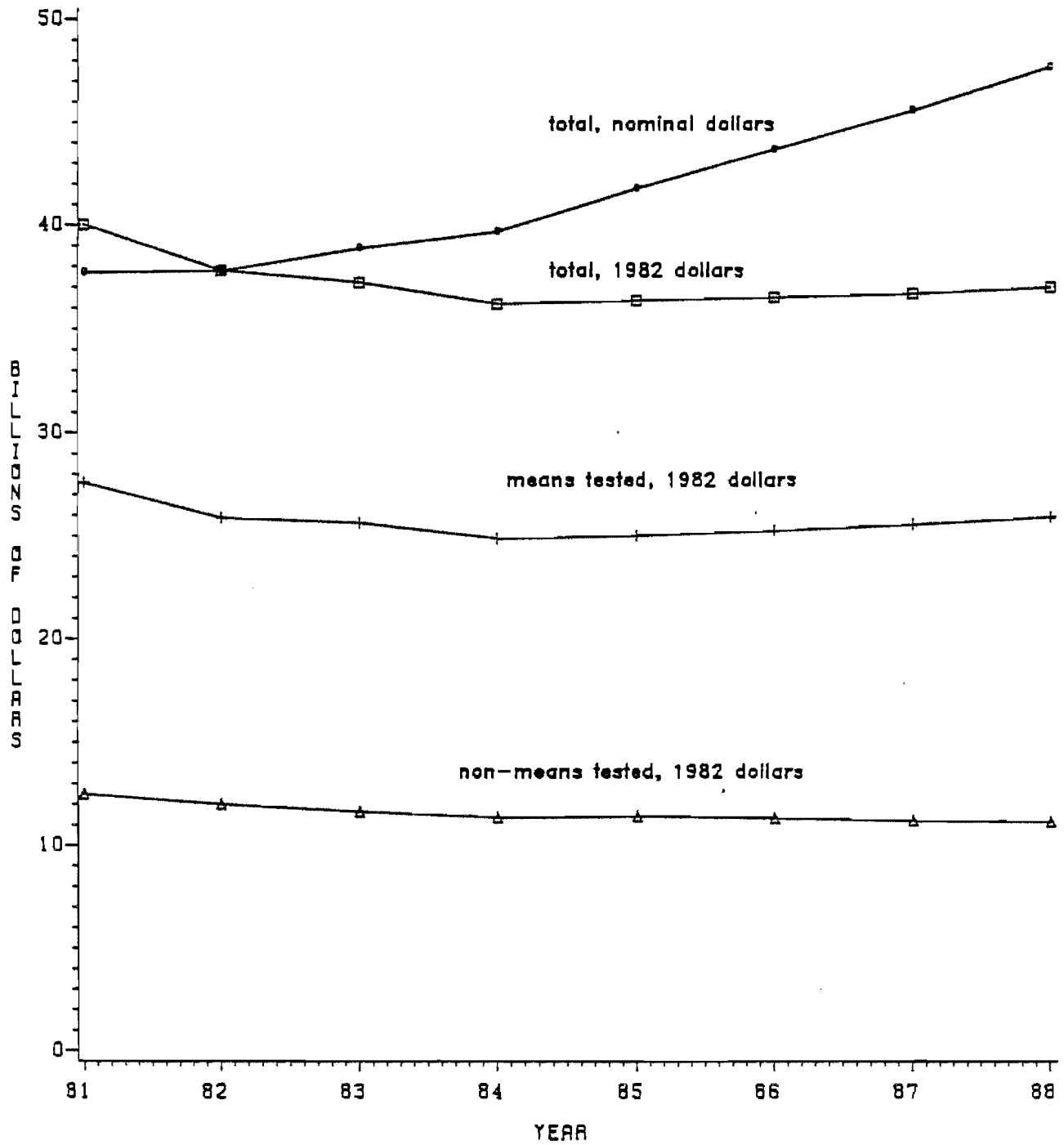
projects that unemployment will decline only slowly, and will still average 7.5 percent in 1988. If this occurs, the proportion of children in poverty will remain high. On the other hand, if there is a stronger recovery, the faster decline in unemployment and higher growth in real incomes could somewhat offset the effects of the demographic factors.

Higher real federal spending on children and families could help to alleviate some of the hardships that would be caused by a continuing increase in family poverty; if current policies are maintained, however, spending not only will not increase significantly, but may even decline. Under current CBO projections, total spending on entitlement programs will not increase in real terms over the next five years, despite a rise of about one-fourth in nominal terms (see Figure 4). Most of the decline will occur in the next two to three years, as a result of the reductions legislated in 1981 and 1982. Moreover, since the means-tested entitlements are projected to decline somewhat more than the non-means-tested programs, low-income families will be particularly affected.

For appropriated programs, maintaining current services levels would require increases in their real funding, given the projected rise in the numbers of very young children and children in low-income families, two groups served by many of these programs. On the other hand, many appropriated programs serving children have been cut substantially in the recent

FIGURE 4

Federal Spending on Selected Entitlement Programs for Children and Families: 1981-1988



Note: Estimates for 1983-1988 based on CBO projections

past, and there is no guarantee that current levels of services will be maintained in the future.

The impact these trends will have on children and families is hard to forecast in any detail, given the lack of data on federal spending for children. For many programs, reliable information on the proportion of total spending going to children and families is not available. In addition, it is difficult to gauge the impact of program changes on particular families, since there is little information on the number of families served by more than one program and hence on the number that are affected by several different cuts. The lack of information on the income status of children and families and on the benefits they receive is particularly marked when one compares it with the extensive data now collected on the elderly population. One goal on which this Committee may wish to focus, therefore, would be the improvement of data collection and dissemination efforts.

CONCLUSION

The number of children living in low-income households has increased significantly in the past three years, and will remain high unless the economy recovers faster than is now projected. This growth results from several different factors, including a rising number of births per year and a higher proportion of children in single-parent families, but the most important cause is the current recession and the slowness of the projected recovery.

Total federal spending in the last three years has increased more slowly than the number of low-income families with children, and in the last year it has actually fallen in nominal terms even for entitlement programs. Future spending levels are difficult to project, especially for appropriated programs, but if current trends continue there will be little real growth and possibly further declines. Since the eligible population will remain high and may grow, benefits for each eligible family may also fall further in coming years.