

How Federal Budget Priorities and Tax Breaks Are Harming America's Children

A Report Prepared by
The Every Child Matters Education Fund

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The Every Child Matters Education Fund is a 501(c)(3) non-profit, non-partisan organization. Its mission is to make children's needs a national political priority and promote the adoption of smart policies for children and families, including stopping child abuse, helping working families with child care, expanding pre-school education and after-school programs, and ensuring that

children get good health care. The Every Child Matters Education Fund is headquartered in Washington, DC, and has field offices in Des Moines, Iowa and Concord, New Hampshire.

Summary

Last summer, the Every Child Matters Education Fund released a report entitled “Will Federal Tax Cuts Harm America’s Children”. In that report we argued that our society is taking a giant step backwards in the protection of children and the creation of opportunities for them as a result of federal budget and tax breaks. These policies were adopted with little regard for the still serious and unmet basic needs of millions of American children.

Since then, states have continued to make cuts in children’s programs. Coupled with recent spending decisions in Congress that ignore children, public investments in children needed to sustain the economy over the long-term are eroding, threatening decades of hard-fought gains for children while a federal budget awash in red ink is saddling them with trillions in new debt.

As the President, Congress, governors, and state legislatures get ready to consider their budgets for 2004-2005, the Every Child Matters Education Fund urges a reversal of recent budget and tax breaks and renewed investments in education, health, and child protection.

Despite the Fact that Smart Government Investments in Children Have Been Proven to Work, Many Children Remain at Risk.

The benefits of investing in children and families are clear and the need is well-defined:

Child Health

Benefit – Prenatal care and immunization dramatically improve healthy outcomes for children while lowering long-term health care costs. The potential economic value from continuous health coverage for all Americans is estimated at \$65 to \$130 billion annually.ⁱ

Unmet Need

- One out of five two year-olds, more than 800,000, has never been immunized.ⁱⁱ
- More than 8 million children have no health insurance.ⁱⁱⁱ
- Facing budget pressure, six states – Alabama, Colorado, Florida, Maryland, Montana, and Utah – have stopped enrolling children in their states’ child health insurance program, depriving health insurance to tens of thousands of eligible low-income children.^{iv}

Child Abuse and Neglect

Benefit – The consequences of child abuse cost the country at least \$94 billion annually, yet programs exist that can reduce abuse by almost 80% and future arrests by more than half.

Unmet Need

- In 2002, 2.6 million children were reported physically abused, sexually abused, or neglected.^v
- Nearly 800,000 children a year move in and out of foster care.^{vi}
- At least 1,300 children died last year from abuse or neglect. The true number may exceed 3,000.^{vii}
- In a federal review of 32 state child welfare systems, only 5 states were found to be in “Substantial Conformity” with federal child safety standards.^{viii}

After-School Programs

Benefit – After-school programs have been shown to reduce juvenile crime, improve school performance, and provide society with three dollars back for every dollar invested.

Unmet Need

- The parents of more than 28 million school-age children work outside the home.^{ix}
- At least 7 million, and as many as 15 million, “latchkey children” go to an empty house on any given afternoon.^x

- Unsupervised children are more likely to be involved in crime, substance abuse and teenage pregnancy in the hours after school, particularly between 3 and 4 p.m.^{xi}

Pre-Kindergarten Education

Benefit – Studies have shown that for every dollar invested in quality pre-kindergarten programs, which improve school readiness, society receives seven dollars in benefits.

Unmet Need

- Head Start, the federal government’s early childhood development program, is only serving half of eligible 3- and 4-year olds — and Early Head Start is only serving 1 of 20 of eligible toddlers.^{xii}
- Inadequate funds mean some pre-kindergarten education programs do not have enough qualified teachers, can not adequately prepare children to learn, and can cost families more than tuition at public universities.

The Massive Federal Spending Spree over the Past Few Months Provided Few Benefits for Children yet Saddled Them with Huge Debt

Recent spending projects include:

- \$87 billion to rebuild and secure Iraq and Afghanistan
- \$401 billion for defense, the largest amount ever
- \$1 trillion for tax breaks on top of the \$1.35 trillion reduction in 2001
- At least \$400 billion over the next decade for a Medicare prescription drug benefit
- A withdrawn energy bill, likely to be revived next year, that will provide as much as \$30 billion in tax breaks for energy companies

Conspicuous by its absence are new investments for children. At the same time, the exploding national debt will pass seven trillion dollars by

the end of the decade, requiring today’s children to have to pay at least \$350 billion a year to service it just as they will also be paying for the retiring baby boom and increased spending for defense and homeland security. Ironically, budget cuts at the federal, and especially the state level, are aimed directly at the health, education, and protection of children.

Different Tax and Budget Choices Could Have Provided Tremendous Benefits for Children

Proposals to permanently eliminate the estate tax will reduce federal revenues by about \$1 trillion over the next 20 years. Just in the year 2013, when the new proposed legislation would completely eliminate the tax, federal revenues will be reduced by about \$63 billion, enough to hire more than a million elementary school teachers, enable more than eight million children to attend Head Start, and provide 33 million children with health care.

Budget Tradeoffs			
<i>What Rescinding a Variety of Tax Plans Would Provide for Children in One Fiscal Year</i>			
	Elementary School Teachers^{xiii}	Head Start Places for Children^{xiv}	Children Receiving Health Care^v
The estate tax	1,103,925	8,537,152	33,828,592
The \$350 billion tax breaks and spending plan enacted in 2003	962,445	7,443,023	29,493,090
Proposed energy plan/tax breaks that failed in the 108 th Congress	58,035	448,810	1,778,417
<small>Source – National Priorities Project Database</small>			

Rescinding the tax breaks enacted last May, which included cuts in the dividend and capital gains tax rate, would result in similar benefits to children.

The House of Representatives passed an energy bill that gives up to \$30 billion in subsidies and tax breaks to the oil, gas, nuclear, and coal industries. The Senate killed the proposal but the leadership has plans to revive the bill when the Senate reconvenes next year. Here’s another choice: instead of giving \$30 billion to energy

corporations, Congress could pay for nearly 60,000 new elementary school teachers, enable more than 400,000 young children to participate in Head Start, or provide health care to more than 1,700,000 children.

The federal tax breaks passed this year provided disproportionate benefits to those at the top of the income scale, while in many states, taxes were increased mostly on low- and middle-income people plus important services to children and youth were cut. Households making over \$1 million a year are receiving an average federal tax cut in 2003 of \$113,000 each. At the same time, more than three-fifths of state-level tax increases are in fees or regressive sales and excise taxes.^{xvi}

State Budget Cuts Are Harming Children and Great Federal Investment Is Necessary

The states have suffered their worst financial crisis since WWII. In the last three years, they have had to close an aggregate gap of almost \$200 billion, including nearly \$80 billion last year alone. This has led to billions of dollars in cuts in children's programs and more will likely come next year.

Budget conditions in 2004 are still serious but they have become slightly brighter than 2003. Ten states report that a budget gap has appeared since the fiscal year began, compared with 31 states at the same time last year. However, 22 states report that spending is exceeding appropriated levels for some portion of the budget meaning further state tax increases and programs cuts will occur. Examples of states where children's programs appear to already be over budget include:

- **Arizona** – State Child Health Insurance Program (S-CHIP) expenditures could run over budget.
- **Connecticut** – The Department of Children and Families has a net deficiency of \$16.2 million.

- **Maryland** – Medicaid, mental health community treatment programs, and foster care are all over budget.
- **Missouri** – Medicaid and early childhood programs are over budget and the state is currently withholding \$190 million in K-12 education.
- **North Carolina** – Teacher bonuses are currently over budget.
- **Ohio** – Temporary Assistance for Needy Families (TANF) is over by \$2.6 million.
- **Rhode Island** – The Department of Children, Youth, and Families is currently over budget.
- **Vermont** – Child care and PATH (welfare) are over budget.
- **Washington** – K-12 education is over budget.

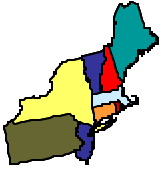
In addition, Medicaid (which benefits millions of children) is over budget in Georgia, Kentucky, Maine, Michigan, Mississippi, New Mexico, New York, and North Dakota.^{xvii}

In the last two years, at least 32 states have cut eligibility for child care subsidies targeted to low and moderate income families, or have otherwise limited such families' access to child care. In 20 states, child care assistance is no longer available to working families newly applying for help. They go on waiting lists instead.^{xviii}

And although states usually show great reluctance to cut K-12 education, 11 states made cuts for fiscal year 2004, following nine that did so in 2003.^{xix} This has resulted in fees for textbooks and courses, shorter school days, reduced personnel, reduced transportation, and other cutbacks.^{xx}

As the headlines on the next page testify, cuts in children's programs are being made across the country.

New England/Mid-Atlantic



(Massachusetts) Study: Cuts Hitting Local Kids Hard

From health care to homework help, programs in peril

Lowell Sun, 11/18/03

(Massachusetts) Voters Balk at Scope of School Cuts

Boston Globe, 11/2/03

(New Hampshire) Lawmakers Approve \$20 Million Cuts at Health Department

New Hampshire Associated Press, 11/19/03

(New York) Americorps Cuts Affect Tutoring Program

Buffalo News, 12/14/03

(New York) Possible School Layoffs Cloud Holiday

Westchester County Journal News, 11/28/03

(New York) Morale Low, Henninger High School Teachers Say

They Say They're "Disrespected". Schools Chief: Money Is the Issue

Syracuse Post-Standard, 11/13/03

(New York) After-School Programs Cut in Half

More than 300 children may have to be dropped

Newsday, 11/6/03

(New York) Budget Cuts End After-School Program

Elmira Star-Gazette, 10/22/03

(Pennsylvania) Rally Decries Mental Health Budget Cuts

Wilkes-Barre Times Leader, 11/20/03

(Rhode Island) School budget crunch looming

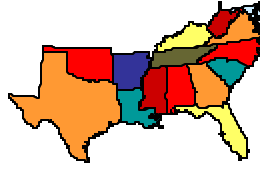
The School Committee seeks a meeting with the City Council in hopes of restoring cuts made to the school budget. Otherwise, federally mandated programs may be threatened.

Providence Journal-Bulletin, 12/10/03

(Washington DC) Teaching Jobs Face Ax in School Budget Deficit

The Washington Times, 12/10/03

South



(Alabama) Juvenile Services Concerned about Potential Budget Cuts

Alabama Associated Press, 12/7/03

(Alabama) Children's Health Insurance Has Waiting List

Budget cuts leave 1,800 in line for subsidized all-kids care

Birmingham News, 11/22/03

(Georgia) State Is Running on Empty

Reserve funds about out

Atlanta Journal-Constitution, 11/19/03

(Georgia) Budget Cuts Threaten Social Services, State Officials told

Macon Telegraph, 11/18/03

(Georgia) Cuts to Child Psychology/Services Draw Criticism

Augusta Chronicle, 11/15/03

(Kentucky) Schools are switching to a four-day week to save money

Kentucky Associated Press, 11/7/03

(Maryland) Advocates Fight to Restore Funding Cut from Children's Health Program

Legislators voted to trim \$2.4 million from budget

Baltimore Sun, 11/1/03

(South Carolina) State Job Cuts Hurting Families at Holiday Time

The (Columbia) State, 11/23/03

(South Carolina) Troubled-Youth School May Fail Budget Test

Greenville News, 11/4/03

(South Carolina) Lack of Central Child Support System Costing S.C. Money

South Carolina Associated Press, 11/3/03

(South Carolina) Social Services Cuts Hit York County Hard

Budget woes lead to unfilled jobs and overwhelming caseloads

The State (Columbia SC), 10/26/03

(Texas) Thousands of Texas Children without Insurance

Dallas Morning News, 12/6/03

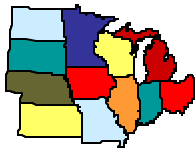
(Texas) Thousands of Children Lose Access to Mental Health Care

El Paso Times, 10/13/03

(West Virginia) Schools No Longer Exempt from Budget Cuts, Governor Says

Charleston Gazette, 12/11/03

Midwest



(Iowa) Budget Cuts Hinder Iowa Care Reform

Good intentions and fiscal reality collide in the effort to protect children from abuse.

Omaha World Herald, 12/14/03

(Michigan) Budget Ax Hits Cities, Schools

State deal chops \$920 million, forces deeper cuts in services

Detroit News, 12/10/03

(Minnesota) Schools Getting Squeezed Again

Minneapolis cuts may reach into classroom

Minneapolis Star Tribune, 12/12/03

(Minnesota) Hennepin County's Drama: Don't Cut Vital Human Services

Families plead with board to maintain funds

Minneapolis Star Tribune, 11/6/03

(Missouri) Schools Struggle with Cuts that Chip Away at Academic Mission

St. Louis Post-Dispatch, 11/20/03

(North Dakota) Not Even 4-H Escapes Budget cuts

Grand Forks Herald, 11/29/03

(Ohio) 140 Kids Cut from Head Start Program

Cincinnati Enquirer, 12/6/03

(Ohio) Southwest Licking Schools Gear up for Across-the-Board Spending Cuts

Columbus Dispatch, 12/2/03

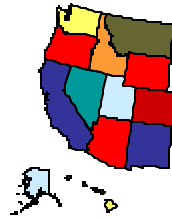
(Wisconsin) First-Grader Hopes His Allowance Will Help Save His French Class

Appleton Post-Crescent, 11/24/03

(Wisconsin) Door County Budget Cuts Social Services

Green Bay Press-Gazette, 11/4/03

Rocky Mountain/Pacific



(California) Deep Cuts for Schools?

Los Angeles Daily News, 12/3/03

(California) Cuts Kill Pregnancy-Prevention Effort

County program works with siblings of pregnant teenagers

Ventura County Star, 11/28/03

(California) Governor Proposes Mid Year Budget Cuts

Plans to slash \$2 billion would hit health-and-welfare programs hardest.

San Francisco Chronicle, 11/25/03

(California) County's Child Health Score Low Report cites families' lack of insurance, teen pregnancy rate

San Diego Union-Tribune, 11/19/03

(California) Burden from Cuts Runs Deep

Fremont Argus, 11/3/03

(California) Checks of Foster Homes Cut Back

Los Angeles Times, 10/27/03

(Colorado) State's child-health plan to refuse new patients

Denver Post, 10/14/03

(Montana) Kids on Health List Must Wait Longer

Billings Gazette, 10/21/03

(Idaho) Tough Times, Tough Choices - Budget Cuts Mean Classroom Aides to Be Limited

Idaho Falls Post Register, 11/18/03

(New Mexico) 'Painful' Budget Cuts Predicted

New Mexico might be in for another drought not in rainfall but in funding for state programs

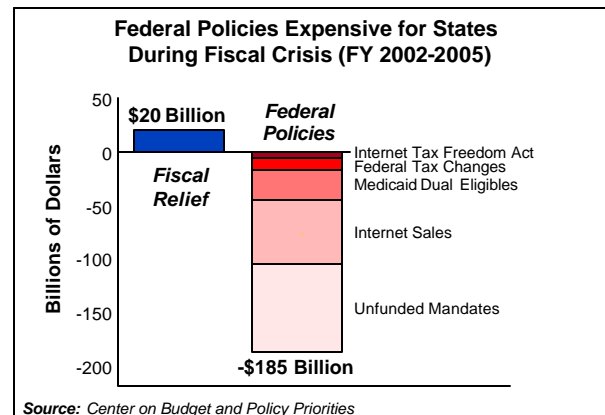
Albuquerque Tribune, 11/13/03

States Are Cutting Child Health, Education, and Protection as a Result of Direct Actions Taken by the Federal Government

The modest \$20 billion in state fiscal relief that was attached to the much larger tax cut adopted earlier this year has been offset by other federal policies that have made the state fiscal crisis even worse:^{xxi}

- Federal tax breaks have reduced state revenues because of linkages between federal and state tax codes. States that have not “decoupled” themselves from the federal tax system have lost \$10 billion.
- Federal policy bars states from imposing routine state taxes on such things as Internet service. This alone costs states about \$6 billion.
- Two Supreme Court cases prevent state and local government from collecting sales taxes on most items their residents buy through catalogs or on the Internet, even though sales tax would apply if they bought the same item in a store. The Court says Congress could act to correct this inequity, but no such action is planned. Cost to the states: \$60 billion.
- The federal government has placed requirements on state and local governments without adequately funding them, including the No Child Left Behind law, education of disabled children, homeland security, and election reform. States will spend \$80 billion meeting these unfunded mandates from FY2002-2005.
- Finally, for more than a decade, a growing share of the cost of health care to low-income elderly and disabled people has been shifting from Medicare, 100% federally funded, to Medicaid for which states bear an average of 43% of the costs. States are spending \$28 billion during the course of the state fiscal crisis to provide prescription drugs to low-income elderly and disabled beneficiaries

who are eligible for both Medicare and Medicaid.

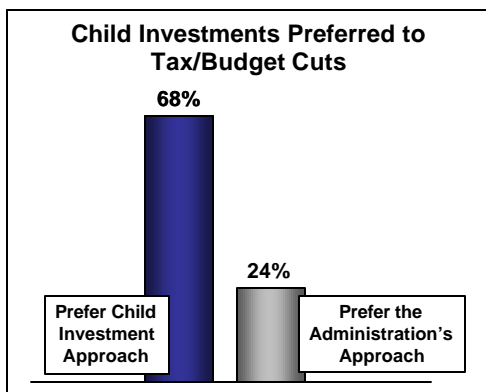


Even though the federal government provided states with modest relief, some could not use it for some children’s programs because they did not have the state matching funds. For example, last summer Colorado committed \$5.6 million of its \$146.3 million in federal relief to the Child Health Plan Plus. However, since federal money cannot be matched by other federal funds, the budget fell short and the state stopped accepting more children into the program.^{xxii}

Voters Want More Investments in Their Children and Grandchildren – Even Over Tax Cuts

In a 2003 national survey of registered voters, when given the choice between the budget and tax breaks enacted earlier this year and greater federal investments in children, voters overwhelmingly (68%) preferred child investments. Just 24% supported the tax cuts. Both men and women preferred the child investment approach as did voters in all regions of the country. Younger, middle-aged, and older voters all equally chose child investments over large tax breaks.^{xxiii}

In the same national poll, 63% say that the needs of children regularly get elbowed off the table in Congress by stronger special interests, while just 24% think that Congress does a lot to help working families with children.^{xxiv}



Local Officials Also Want a Greater Federal Commitment to Programs in their Community

In a 2003 survey, elected municipal officials expressed strong support for federal policies benefiting families with young children. These include:

- Providing early intervention and treatment for children with disabilities (60%)
- Providing a preschool education for all children (53%)
- Providing affordable, quality child care for all children (52%)

Support for such policies is solid in all sizes of communities and all regions of the country.^{xv}

2004 Investment Agenda

The Every Child Matters Education Fund supports full funding of children's programs. An affordable 10 year investment strategy in kids includes such initiatives as these:

Child Health

The Investment – Provide emergency help to the states now to prevent loss of current coverage, and provide a permanent increase in CHIP spending to cover the nation's low-income uninsured children. *Total 10 year cost - \$56.1 billion in new funding.*

The Benefits

- Comprehensive benefits for nearly every child would be available at birth and barriers to health insurance enrollment would be eliminated.
- Parents would have more choices for their children's medical care.
- New initiatives would be offered to communities to reduce lead poisoning, asthma, and other problems.
- Early preventative treatments and immunizations will lead to healthier children and lower health costs.

Child Abuse and Neglect

The Investment – Fully fund programs that protect children and strengthen families, foster care, adoption, and independent living. In addition, funding the Child Protection/Alcohol and Drug Partnership Act would address the link between substance abuse and child abuse and neglect. *Total 10 year cost - \$60 billion in new funding.*

The Benefits

- Investments in preventing abuse and neglect will help prevent crime and eliminate the \$94 billion annual cost child abuse and neglect place on society.
- The Nurse Family Partnership program, which prevents abuse and neglect through home visits and proven parent-coaching techniques, saves four dollars for every one dollar spent.
- For every one dollar invested in alcohol and drug treatment, seven dollars are saved in reductions in health costs, lost work, foster care and other social services – as well as reductions in violence and crime.

After-School Programs

The Investment – Fully fund the 21st Century Community Learning Centers program so that all children and youth could attend a quality after-

school program. *Total 10 year cost - \$21 billion in new funding.*

The Benefits

- After-school programs keep kids off the streets, and from committing crimes that cost taxpayers money.
- Such programs also provide enriching activities that help kids become productive members of society.
- In one study, boys who participated in an after-school program had one-sixth as many criminal convictions as those left out of the program and three dollars were saved for every one dollar spent.

Pre-Kindergarten Education

The Investment

- Fully fund Early Head Start services for infants and toddlers in poverty. *Total 10 year cost - \$52.5 billion in new funding.*
- Fully fund voluntary pre-school for children of moderate- and low-income families. *Total 10 year cost - \$150 billion in new funding.*

The Benefits

- Pre-kindergarten education has the short-term benefit of improving on-the-job productivity of working mothers and long-term benefits for children.
- Pre-kindergarten education programs get kids ready for school, cut crime, and help children learn the skills needed to become contributing citizens.
- A study of Chicago's Child-Parent Centers found that children left out of the program were 70% more likely to be arrested for a violent crime by age 18.
- The Child-Parent Center program cut crime and other costs saving the public \$7 for every \$1 invested.

Conclusion – Investing in Our Kids Helps All of Us

Numerous studies confirm high rates of return on investments in pre-natal care, early childhood education, preventive health services, child abuse prevention, after-school programs, and many other children and youth services. At a time when the country is facing growing budget deficits and the impending retirement of the "Baby Boom" generation that will strain the Social Security and Medicare funding, there is no better investment to ensure the nation's long-term economic health than investing in children.

Despite a challenging economic climate here and abroad, the nation's still great wealth permits the Congress and the Administration, if they choose, to invest in proven policies that help children, youth, and families. The Administration's forthcoming 2005 budget should address widespread child health and social problems that are beneath the status of the world's most powerful nation and to affirm that every child matters.

End Notes

- ⁱ Institute of Medicine, "Hidden Costs, Value Lost – Uninsurance in America", June 2003.
- ⁱⁱ Annie E. Casey Foundation, "Kids Count Data Book 2003," Released on 6/11/03.
- ⁱⁱⁱ Based on merged March 2000 and 2001 Current Population Survey data, weighted to represent one year, with adjustments for reported changes in Medicaid and SCHIP as of December 2001.
- ^{iv} Donna Cohen Ross and Laura Cox, "Enrollment Freezes in Six State Children's Health Insurance Programs withhold Coverage from Eligible Children", Center on Budget and Policy Priorities, December 22nd, 2003.
- ^v U.S. Department of Health and Human Services, "Child Maltreatment 2001," http://www.acf.hhs.gov/programs/cb/publications/cm01/table2_1.htm.
- ^{vi} U.S. Department of Health and Human Services, "Child Welfare Outcomes - Annual Report," <http://www.acf.hhs.gov/programs/cb/publications/cwo99/index.html>.
- ^{vii} U.S. Department of Health and Human Services, "Child Maltreatment 2001," http://www.acf.hhs.gov/programs/cb/publications/cm01/table5_2.htm.
- ^{viii} U.S. Department of Health and Human Services, Administration on Children and Families, "Summary of the Results of the 2001 and 2002 Child and Family Services Reviews," <http://www.acf.hhs.gov/programs/cb/cwrp/2002cfsresults.pdf>.
- ^{ix} U.S. Department of Labor.
- ^x U.S. Census Bureau, Urban Institute estimate, 2000.
- ^{xi} National Center for Juvenile Justice, 1999.
- ^{xii} Fight Crime Invest in Kids, "Head Start Improve Achievement and Reduces Crime", July 14, 2003, <http://www.fightcrime.org/reports/HeadStartBrief.pdf>
- ^{xiii} Elementary School Teachers: Each state's number is based on the average amount of pay an elementary school teacher receives according to the 2001 State Occupational Employment and Wage Estimates plus 25% to cover other expenses associate with employment such as benefits. These numbers have been adjusted for inflation to reflect a 2003 estimate.
- ^{xiv} Head Start Places for Children: The cost per child for each state based on state numbers from the Administration of Children and Families' Head Start Bureau for FY2002. These numbers have been adjusted for inflation to reflect a 2003 estimate.
- ^{xv} Children Receiving Health Care: The state numbers are from the Centers for Medicare and Medicaid 2002 Data Compendium. They represent the average Medicaid outlays per child per state for 1999. (Number for Hawaii is based on 1998 information.) Since this was the most recent data, we've adjusted it at 10% per year to reflect a 2003 estimate.
- ^{xvi} Impact of federal tax changes from Brookings-Urban Tax Policy Center, <http://www.taxpolicycenter.org>, Table 5.17
- ^{xvii} National Conference of State Legislatures, State Budget and Tax Actions, "State Budget Update: November 2003".
- ^{xviii} Danielle Ewen and Katherine Hart, "State Budget Cuts Create a Growing Child Care Crisis for Low-Income Working Families," Children's Defense Fund, March 2003.
- ^{xix} National Conference of State Legislatures, State Budget and Tax Actions. 2002 and 2003 preliminary report.
- ^{xx} Iris J. Lav, "Federal Policies Contribute to the Severity of the State Fiscal Crisis", Center on Budget and Policy Priorities, December 3rd, 2003.
- ^{xxi} Iris J. Lav, "Federal Policies Contribute to the Severity of the State Fiscal Crisis", Center on Budget and Policy Priorities, December 3rd, 2003.
- ^{xxii} Allison Sherry, "State's Child Health Plan to Refuse New Patients", Denver Post, October 14th, 2003.
- ^{xxiii} Mason-Dixon Polling and Research, 800 registered voters nationally conducted from February 19th to 27th, 2003.
- ^{xxiv} Mason-Dixon Polling and Research, 800 registered voters nationally conducted from February 19th to 27th, 2003.
- ^{xxv} National League of Cities, "Strengthening Families in America's Cities: Early Childhood Development", 2003.