

A COMPARATIVE PERSPECTIVE ON PUBLIC SPENDING ON CHILDREN

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November 2009

Summary

Several cross-national studies find that cash and near-cash benefits for children in the United States are quite low compared to most other rich nations. However, the picture changes radically when education and health expenditures are brought into the equation. The United States emerges as a country with higher than average child spending under a broad definition of public spending on children. Regarding spending on the elderly, the United States has a particularly strong age bias in public expenditures, although all OECD countries spend more, per capita, on cash benefits for the elderly than on cash benefits for families and children. Interestingly, cross-national research finds little evidence to support Samuel Preston's concern that spending on children will decline in face of increases in elderly populations and expenditures on the elderly. On the contrary, per capita expenditures on children and families increased during the latter part of the twentieth century in the United States and abroad. It is not clear whether this trend will continue or whether growing expenditures on the elderly will crowd out spending on children in the future.

Spending on Children and the Elderly. This is the second in a series of three working papers looking at spending on children and the elderly. The first, *How Much Do We Spend on Children and the Elderly?*, is descriptive in nature and provides estimates of public spending on children and the elderly, as well as information on private support for these two age groups. This paper investigates whether the United States invests less in children than other rich countries and whether there is a common cross-national pattern of spending more on the elderly than on children. Finally, a third paper, *Public Spending on Children and the Elderly from a Life-Cycle Perspective*, tackles a challenging question raised by the observed spending patterns in the earlier papers, namely: does it make sense for our country to be spending so much less on children than on the elderly? While such a question sometimes raises issues of intergenerational warfare, the paper will address it through a life-cycle framework.

The author of the series, Julia B. Isaacs, is the Child and Family Policy Fellow at the Brookings Institution. The papers benefited from the excellent research assistance of Emily Monea and helpful comments of Isabel Sawhill. All three papers and a summary issue brief can be found [here](#) on the Brookings website.

Introduction

As detailed in the first paper in this series, public spending on children totaled an average of close to \$9,000 per child under age 19 in 2004. More than two-thirds of the \$691 billion total was from state and local governments, driven by spending on public elementary and secondary education (Isaacs, 2009a). How does this level of public spending on children, which represents 6.0 percent of the Gross Domestic Product (GDP) in the United States, compare with spending in other rich, industrialized countries? And, how are American children doing in terms of their health, education and overall child well-being compared to children in other countries?

To answer these questions, I turn first to data on child well-being, presenting disturbing evidence that American children are lagging behind their international counterparts in a number of domains. I then examine estimates of public expenditures in other countries. I will show that the question of whether the United States spends much less than other countries is answered differently depending on how one defines “spending on children” and specifically on the treatment of education and health expenditures.

Finally, I will discuss the relative spending priorities on child and elderly populations in different industrialized countries. My estimates presented in the first paper suggest that public expenditures on the elderly are at least 2.4 times higher than those on children in the United States, when measured on a per capita basis. Do other countries also spend less on children than on elderly populations? To what extent? And how are other industrialized countries dealing with the fiscal challenges that loom as their populations age and a growing share of their government resources are devoted to pensions and other spending on the elderly? I am particularly interested in the question of whether countries that spend more on the elderly also spend more on children or whether they spend less, as is suggested by those warning of intergenerational warfare.

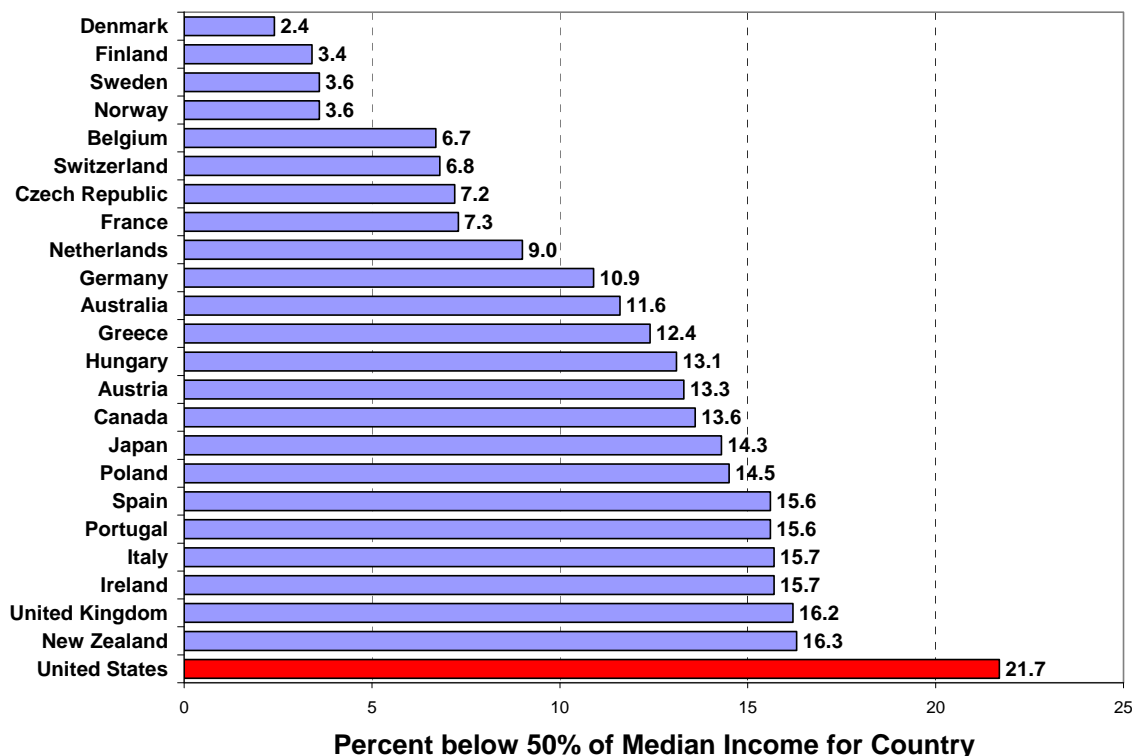
I. International Comparisons of Child Well-Being

Children in the United States are at much higher risk of living in poverty than children in other industrialized countries according to a number of international comparisons. For example, a recent study found that more than one-fifth (21.7 percent) of children in the United States had poverty-level incomes, much higher than the 2.4 to 16.3 percent poverty rates found in the 23 other rich countries included in the study (UNICEF, 2007; see figure 1). A number of other studies have also found that child poverty rates are higher in the United States than in most other industrialized countries (Gornick and Jantii, 2009; UNICEF, 2006; Rainwater and Smeeding, 2003; Cornia and Danziger, 1997).

Note that the poverty level underlying figure 1 is defined as half the median income in each country, an amount that varies across countries. Median incomes in many European countries are 20 to 25 percent lower than that in the United States after adjusting for purchasing power parity, and some are even lower. For example, the poverty benchmark of 50 percent of median income is only \$7,000 in Hungary, compared to \$24,000 for a family

of four in the United States (Bradshaw, Hoelscher, and Richardson, 2007; Rainwater and Smeeding, 2003).

Figure 1. Child Poverty Rates in 24 Rich Nations, 2000



Source and notes: UNICEF (2007), Figure 1.1. Data for Australia, Austria and Greece are for the year 1999, and data for Germany, New Zealand and Switzerland are for the year 2001.

For this reason, the UNICEF report also compares countries on alternative measures that attempt to measure overall standards of living. One such alternative measure examines the extent to which children ages 11, 13 and 15 report having their own bedroom, traveling on holiday, and living in a family that owns cars and computers. The United States rises to 6th when ranked on this alternate measure of family affluence and deprivation. The United States ranks poorly again, however, on other alternate measures that examine educational resources and books in children’s households, resulting in a mediocre standing on a combined measure of household resources available to children (UNICEF, 2007).

The troubling news from the UNICEF report extends beyond the domain of child material well-being. Across other domains surveyed in the report – health, behavior, education and family structure – children in the United States also tend to have worse outcomes than their international counterparts. American children suffer from much higher than average rates of infants born with low birth weights, infant mortality, accidental and non-accidental deaths, teen fertility, obesity, children living in single-parent families, and youth living in step-families. They also do less well on tests of school achievement at age 15 on a measure that combines reading, math and scientific literacy. While there are some measures on which children in the United States fare better than their counterparts – for example, they are less likely to live in a households without any workers, they have lower

rates of cigarette smoking, and they have much higher career aspirations – overall, the United States ranks 20 out of 21 in an overall index of child well-being (UNICEF, 2007).

Why does the United States have a much higher child poverty rate and lower measure of child well-being than many other rich nations? Part of the answer lies in labor market conditions and population demographics. Earnings inequality is higher in the United States than in many other countries in the Organization for Economic Cooperation and Development (OECD). In addition, the United States has a high proportion of female-headed families, although certainly not the highest among OECD countries. Young working parents in the United States often have insufficient earnings to raise their families above the poverty level, and this is particularly likely in the case of single parents.¹

Tax and benefit policies also contribute to the high child poverty rates in the United States. One study of fifteen countries found that the United States and Italy stand out as two rich countries whose taxes and benefits have relatively little effect on child poverty rates. The remaining countries saw reductions in child poverty rates of roughly 75 percent or more (six countries) or between 25 and 75 percent (seven countries) in an analysis comparing income before and after taxes and benefits (Rainwater and Smeeding, 2003).² In another striking comparison, Gornick and Jantti (2009) compare the effect of taxes and transfers on child poverty rates in the United Kingdom and the United States. Child poverty rates in the United Kingdom fall from 33 percent to 17 percent after taking into account taxes and transfers; the comparable shift is only from 25 to 22 percent in the United States.

A simpler illustration of the relationship between child poverty rates in rich nations and their public policies is shown in figure 2, which is drawn from research by Jonathan Bradshaw (2007) and shows that child poverty rates tend to be higher in countries that spend less on cash benefits, services and tax breaks for families with children. The United States stands out in the upper left-hand corner of the graph as a country with a high child poverty rate (more than 20 percent) and low spending on benefits for children and family (less than 1.5 percent of GDP).

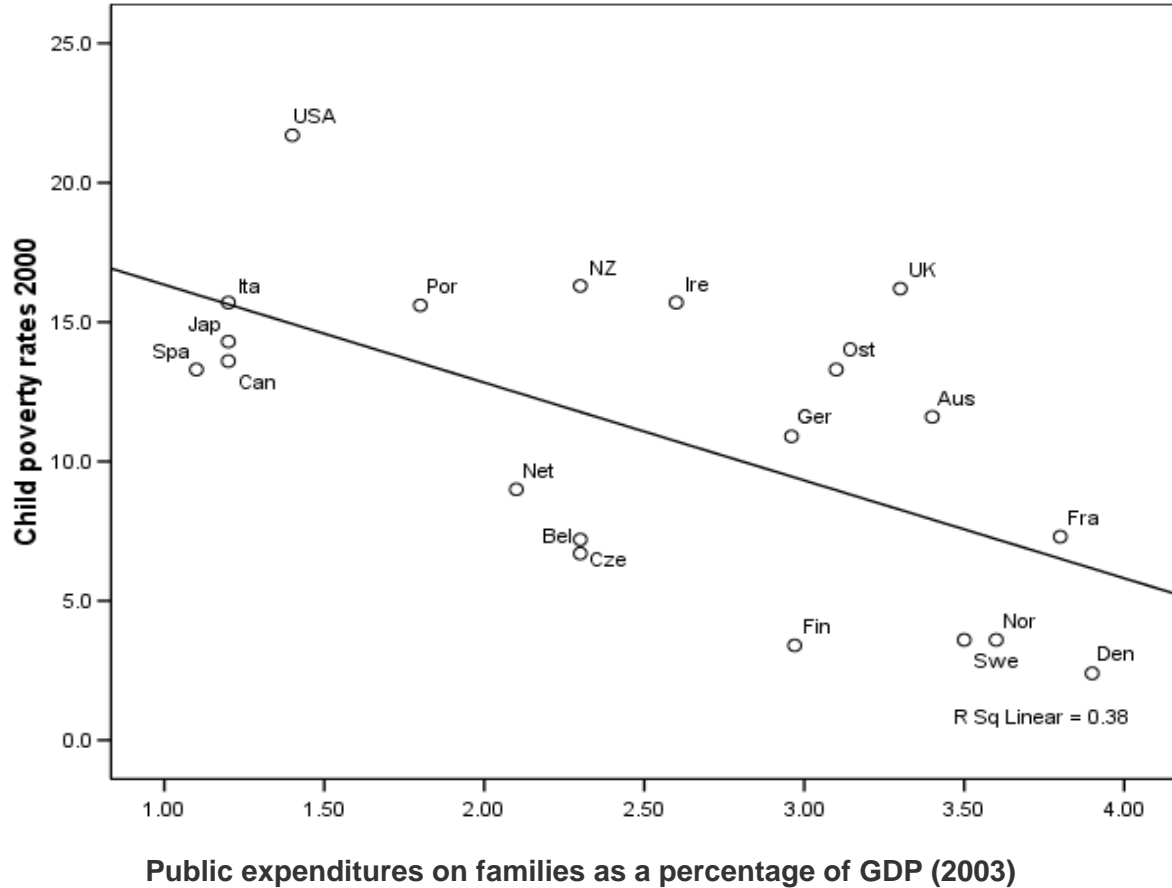
While this simple correlation does not show cause and effect, it does lend some support to the argument that tight-fisted spending policies in the United States contribute to the poor standing of American children. However, as will be shown in the next section, it turns out

¹ Low-wages of working parents is emphasized here more than unemployment or lack of labor force participation because parents in the U.S. have higher employment rates than parents in other OECD countries. That is, the higher child poverty rates in the U.S. occur despite higher employment rates among parents. (UNICEF, 2007).

² The analysis by Rainwater and Smeeding used data from the Luxembourg Income Study. Poverty was first measured on the basis of market income (earnings, self-employment income and asset income before taxes) and then on the basis of a “post-tax, post-transfer” income measure that adjusts for the effects of income taxes, payroll taxes and transfers such as Social Security and welfare. The largest percentage reductions in child poverty rates occur in Belgium, Denmark, Finland, France, Norway and Sweden. The countries with a mid-level reduction in child poverty rates include Australia, Canada, Germany, the Netherlands, Spain, Switzerland and the United Kingdom. Note that tax and benefit policies can, of course, influence people’s decisions about how much to work, and so the “market income” measure of child poverty is not truly independent of the post-tax, post-transfer measure.

that the United States does not spend less on children than other countries if one uses a more comprehensive measure of “public expenditures on children.”

Figure 2. Child Poverty Rates by Public Expenditures on Cash Benefits, Services and Tax Breaks for Families with Children in 20 OECD Countries, 2003



Source and notes: Bradshaw (2007). Note that child poverty rates are the same as in figure 1. Public expenditures on families are drawn from OECD data.

II. International Comparisons of Public Expenditures on Children

It is not easy to compare public spending on children across countries, because of conceptual challenges in consistently defining “expenditures on children” and data limitations. Take for example, the issue of health expenditures on children. Conceptually, does it make sense to count them as an expenditure on children when they do not provide a direct payment to families and when most countries have national health insurance without separate programs, budgets or allocations for children? With regard to data, how is the researcher to determine how much of governmental health expenditures are for children if government reports do not allocate such expenditures by age group? And what is the level of government support for health care in the United States, given that many children are covered through their parents’ employer-provided insurance, which is indirectly supported through a tax subsidy exceeding \$130 billion (Tax Policy Center, 2008)?

For both conceptual and data reasons, therefore, much of the literature reviewed in this paper starts with a relatively narrow definition of expenditures, focusing on “cash benefits for families” and “services to families,” two categories of expenditures included in the cross-country file of the Social Expenditure database maintained by the OECD.³

Under this definition, the United States spends relatively little on children, as was shown in figure 2, and is shown again in figure 3, which depicts public spending on cash benefits and services for families, based on calculations by Julia Lynch (2006). Across the 1985-2000 time period, the U.S. spent an average of 2.4 percent of GDP per child age 0-15 years, much less than the 9.6 percent median across the 20 OECD countries in Lynch’s analysis. In fact, the United States ties Japan for second lowest in expenditures, with only Spain spending less on children under this measure.⁴

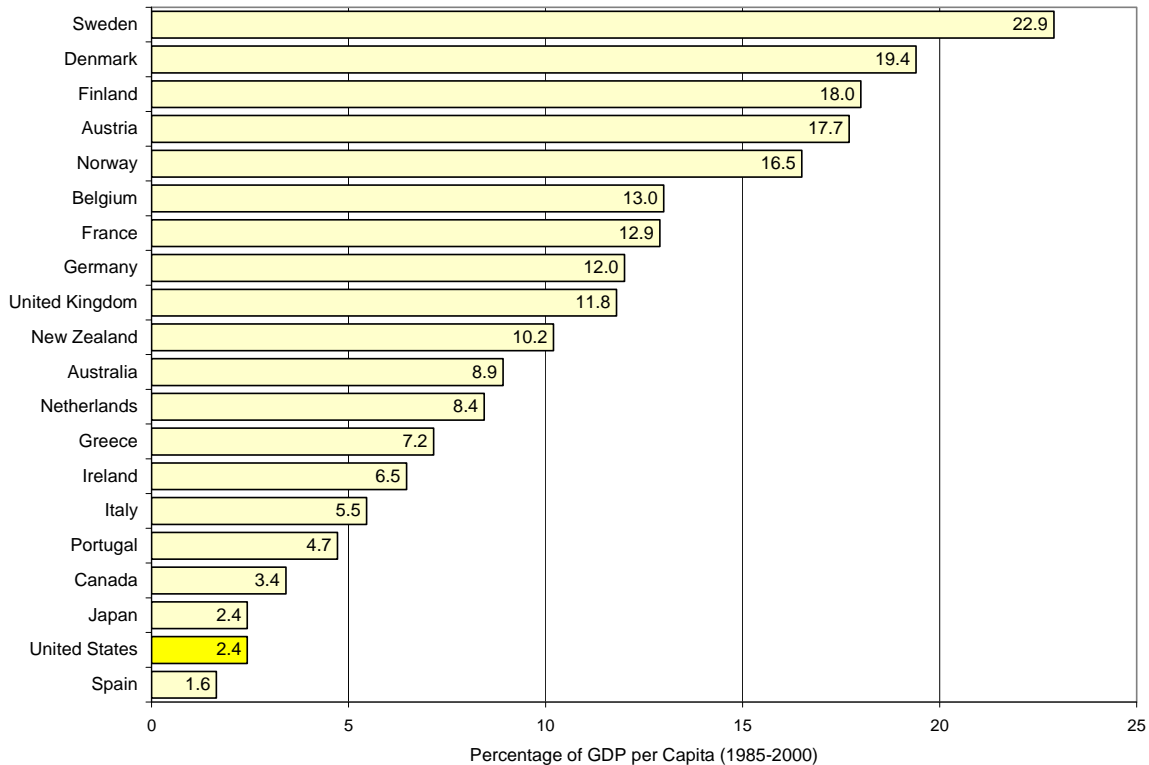
Note that some analyses of spending on children and families use an even narrower definition than that used by Bradshaw and Lynch in figures 2 and 3. For example, Fred Pampel (1994) compares pension spending on the elderly to family cash allowances for children in his analysis of age inequality in public spending. The United States does not have a program of universal family allowances and so is classified as spending “0” under this particular definition of expenditures on children.⁵

³ “Cash benefits for families” include cash assistance programs such as the Temporary Assistance for Needy Families (TANF) program in the United States, as well child and family allowances and paid family leave. It does not include refundable tax credits (a significant omission for the U.S., which has a very large Earned Income Tax Credit (EITC) program). “Services to families” includes child care subsidies but does not include early childhood education nor the much larger categories of health services (reported in the social expenditure database but not disaggregated by age) or education expenditures (reported in a separate OECD database). Most researchers using these two categories acknowledge their limitations and sometimes make adjustments to add in tax credits and health and educational expenditures, as well as unemployment benefits and other expenditures for workers whose families often include children.

⁴ The Lynch metric of “percentage of GDP per person under 15” adjusts total expenditures for the size of both the economy and the population. In contrast, in figure 2, expenditures were expressed as a percentage of GDP, without adjustment for cross-country demographic differences. Also note that the Bradshaw analysis includes tax credits as well as cash and services. Despite these differences in metrics – and in years examined – the rankings in figures 2 and 3 are quite similar, with the United States, Spain, Italy, Japan and Canada spending relatively little on children, and Sweden, Denmark, Finland, Norway and Austria ranking high in both figures. The same 20 countries are shown in figures 1-5, except that figure 1 also shows poverty rates for four additional countries: the Czech Republic, Hungary, Poland and Switzerland.

⁵ The Pampel analysis is partly driven by data constraints; he uses International Labour Organization data dating back to 1959 (well before the family benefits category was split out of the OECD data base). However, he also argues that focusing on allowances provided to all families provides a better measure of priorities placed on children than analysis of “social assistance” benefits, which are only provided to families qualifying by virtue of low-income, lone-parent status or other need.

Figure 3. Government Expenditures on Cash and Services for Families with Children in 20 OECD Countries, 1985-2000

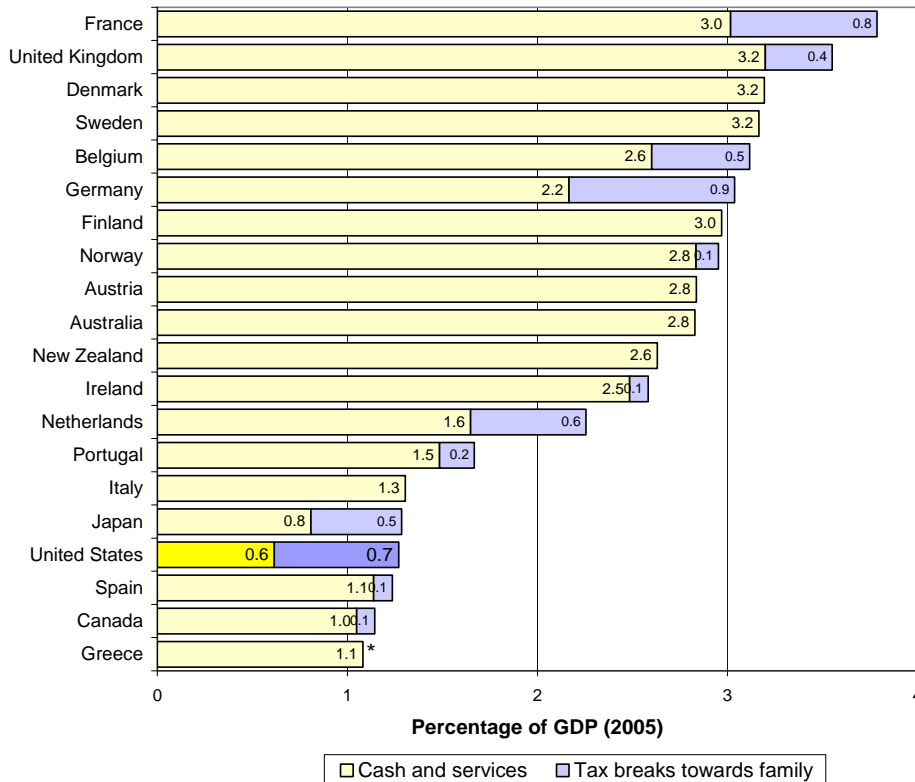


Source and Notes: Lynch (2006). Her analysis is based on the OECD Social Expenditure database and OECD demographic data.

It makes more sense, in my view, to expand the definition of expenditures on children, where data permit, to include a broader set of expenditures benefitting children. One such expansion is the addition of tax credits, which represent a large and growing form of assistance in certain countries. In the United States, for example, the Earned Income Tax Credit (EITC) provides over \$40 billion in benefits to families with children. Recently, the OECD has provided estimates of expenditures on tax breaks for families as well as benefits and services (OECD Family Database). In figure 4, I show the OECD estimates for cash benefits, services, and tax breaks for families for the same 20 countries as in the Lynch study. The inclusion of tax breaks more than doubles the estimate of spending on children in the United States in 2005, but even so, expenditures on children continue to lag behind expenditure levels in most other countries.⁶

⁶ Note that while the countries are the same as in figure 3 and that they draw on the same database for cash and services, the year is different and the metric is now percentage of GDP rather than percentage of GDP per capita.

Figure 4. Government Expenditures on Cash, Services and Tax Breaks for Families with Children in 20 OECD Countries, 2005



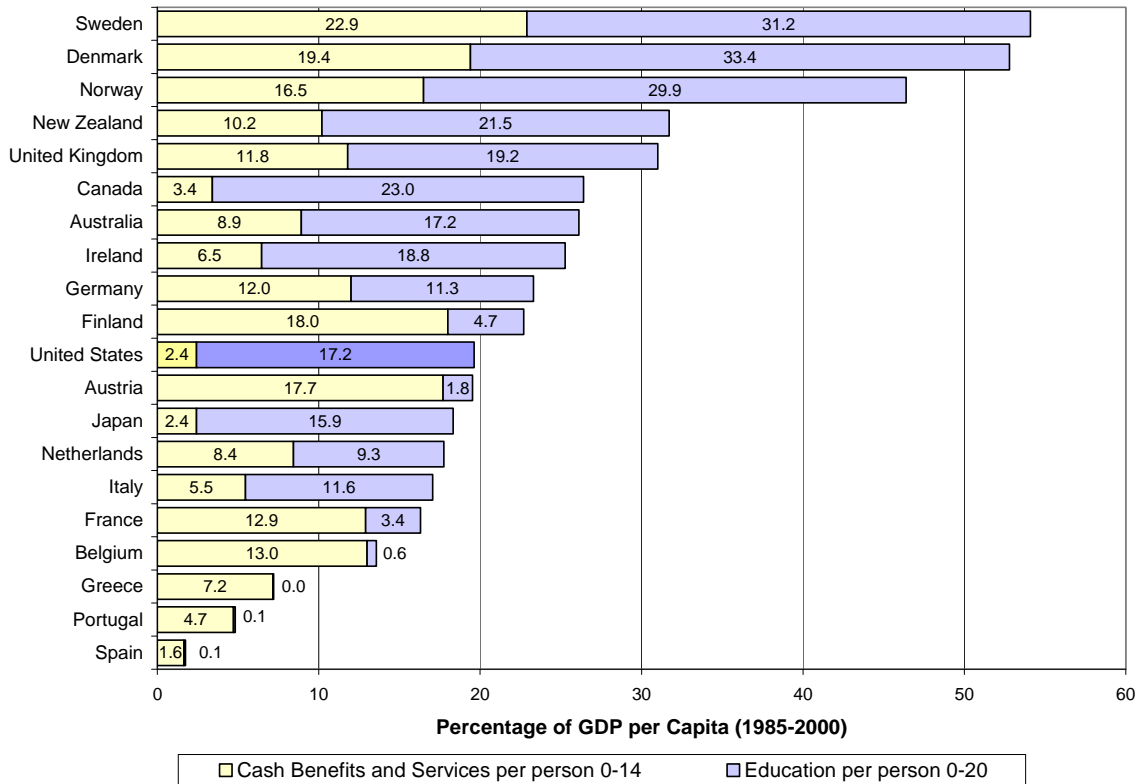
Source and notes: OECD Family Data Base, table PF1.1. *Tax break data are not available for Greece.

Some researchers argue that tax credits should not be included in expenditures on children because, as Pampel (1994) argues, they “disproportionately benefit those in higher tax brackets, are more likely to go to men than to women, and do little for poor children and their families.” More often, researchers state a conceptual preference for including tax credits but have left them out because of the formidable challenges of getting accurate and comparable estimates across countries. It is interesting to note that the inclusion of tax credits tempers but does not substantially alter the view of the United States as tight-fisted with regard to expenditures on children.

A more important expansion concerns expenditures on education. When I add Lynch data on educational expenditures per person aged 0 to 20 years to her estimates of direct public spending on children and families, the United States moves up from the bottom to mid-level ranking in terms of expenditures on children (see figure 5).⁷ The United States has historically made a strong investment in public schools, and it continues to spend more on public education than a number of other rich industrialized countries.

⁷ Note that the Lynch metric does not include tax breaks and that the metric in figure 5 is percentage of GDP per capita (as in figure 3), not percentage of GDP (as in figure 4).

Figure 5. Government Expenditures on Family Cash Benefits, Family Services and Education in 20 OECD Countries, 1985-2000



Source and Notes: Lynch (2006), tables 2.4 and 2.5. This graph combines estimates of cash benefits and services per person under 15 (Lynch, table 2.4) with estimates of educational expenditures per person aged 0-20 (Lynch, table 2.5). While both tables are labeled as spanning the years 1985-2000, the text accompanying table 2.5 indicates that the educational expenditure data are for 1992-1998. Thus the two metrics appear to cover different years as well as slightly different age groups. My rationale for combining them into a composite measure of expenditures on children is that both estimates provide a useful metric of a country's public investments in children.

Public expenditures on primary, secondary and tertiary education are included in figure 5. One could argue against the inclusion of tertiary education, an area of strong investment in the United States, because it does not benefit children under 18. Another important adjustment concerns preschool and other early education expenditures, which are not collected consistently in the OECD data. The United States had the lowest child expenditures on early childhood care and education, on a per child basis, according a compilation of statistics from seven OECD countries with roughly comparable data for 1996 (Meyers and Gornick, 2000).⁸ If the educational expenditure data in figure 5 were adjusted to subtract out tertiary education and add in early education, the United States would probably fall below the mid-range in ranking, though not as low as in figure 3, which was limited to benefits and non-educational services.

Political scientists studying the welfare state tend to exclude education from their analyses, viewing the public education system as separate from the functioning of the welfare state.

⁸ When Meyers and Gornick updated their analysis to 2000 expenditures and expanded it to include 10 countries, the United States remained near the bottom, second only to Australia, according to estimates reported by Garfinkel, Rainwater and Smeeding, 2004.

Another argument against including educational expenditures is that they do not provide direct benefits to families, and they assist teachers and other school employees as well as children (Pampel, 1994). While educational expenditures are excluded from many cross-national comparisons of public expenditures on children, almost all research in the United States, including my own analyses, include elementary and secondary expenditures (Isaacs, 2009a). Such expenditures are significant in amount, making up almost two-thirds of my total estimate of spending on children. Moreover, educational expenditures during childhood are a prime example of a human capital investment that has significant payoffs in adult years, for both the individual and society. For this reason, educational expenditures during childhood are critical to the study of spending across the life-cycle (Becker and Murphy, 1988; Isaacs, 2009c).

Finally, health expenditures are another large category of expenditures which are omitted from most international comparisons of spending on children. As noted above, it is difficult to get health expenditure data disaggregated by age, and there also is the problem of handling employer-provided health insurance in the United States. After examining cross-country research on health care costs by age in OECD countries, Irvin Garfinkel, Lee Rainwater and Timothy Smeeding (2004; 2006) produce estimates of child health expenditures by assuming that per capita costs for children are equal to 75 percent of the overall per capita health spending reported for OECD countries. Moreover, they adjust the United States estimate to include not just government expenditures (under Medicare, Medicaid and public health) but also the full value of employer-provided insurance and an estimate of the value of charity care provided to the uninsured. Under these assumptions, they estimate that the United States spends more than twice as much on health care for children than most other countries. With the inclusion of these high health benefits as well as education benefits, total benefits to households with children are higher in the United States than in any of the other nine countries included in their analysis (see figure 6).⁹

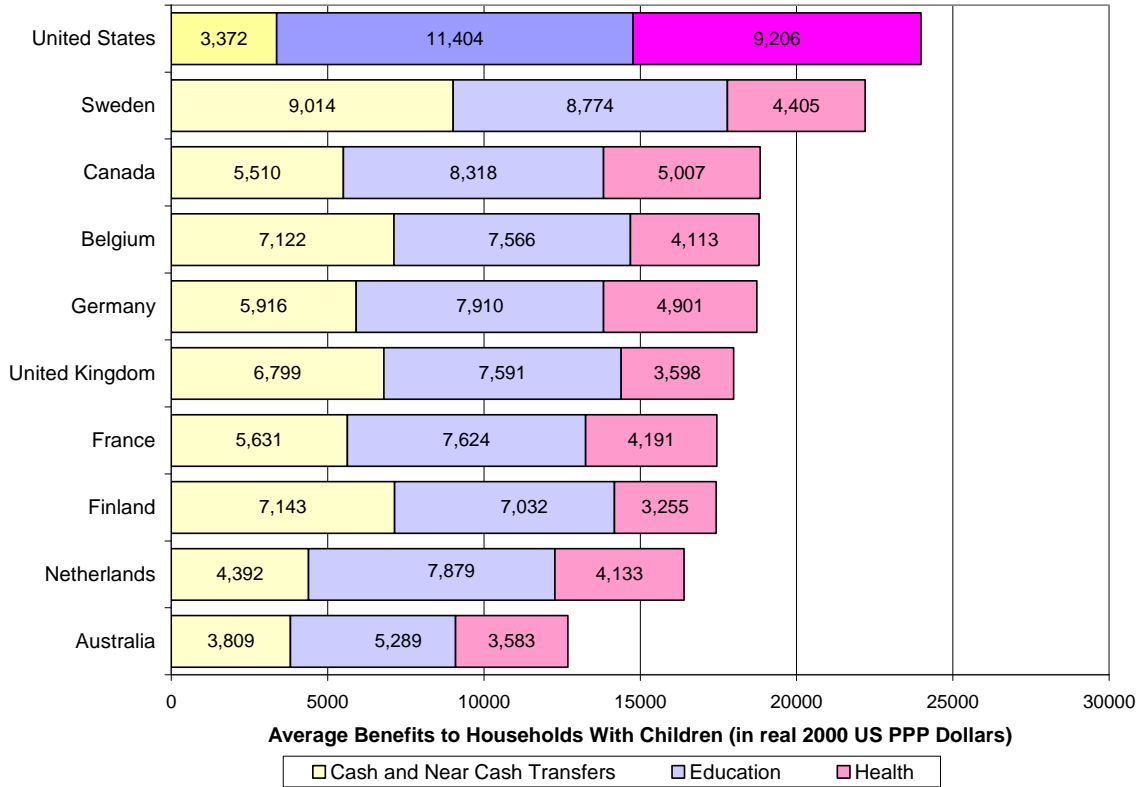
The data presented in figure 6 provide an opportunity to recapitulate what has been presented thus far with regard to international comparisons of expenditures on children. Cash and near-cash benefits for children in the United States are quite low compared to most other rich, industrialized nations, even when including tax credits as cash benefits and regardless of the particular metric used in the comparison.¹⁰ Much of the literature focuses exclusively on this category of cash benefits or cash benefits and services, contributing to the conventional view that the United States spends little on children. However, the picture changes radically when education and health expenditures are brought into the equation. Spending on public education is relatively high in the United States; combined expenditures on benefits to families and education in the United States are somewhere

⁹ An alternate, and for my purposes, preferable definition would be governmental spending on children's health, defined as the proportion of public spending on health programs directed towards children, plus the governmental cost of providing children with insurance through employer-provided health insurance. That is, rather than the full cost of employer-provided health care, I would be interested in the governmental cost (the share of the \$130 billion in tax expenditures for health insurance that benefits children rather than adults). Unable to find such an estimate, I instead present the estimate of the social (not governmental) cost of health expenditures on children by Garfinkel et al. (2004).

¹⁰ The "cash and near-cash" category in the analysis of Garfinkel et al. (2004) does include most of the EITC (specifically, the outlay (or refundable) portion).

between the mid-level to high range for OECD countries.¹¹ Finally, the addition of health expenditures on children confirms the United States as a country with high expenditures on children, particularly if society-wide health expenditures are defined to include employer-provided benefits as well as government expenditures.

Figure 6. Social Expenditures on Family Benefits, Education and Health in 10 OECD Countries



Source and notes: Garfinkel, Rainwater and Smeeding (2004), table 2. Data are from 2000 (United States, Sweden, Germany, Finland), 1999 (United Kingdom, the Netherlands), 1997 (Canada, Belgium) and 1994 (Australia, France).

Expenditures on education and health do not add directly to family income and so the high child poverty rate in the United States is not incompatible with high levels of expenditures on schooling and health care. However, these expenditures should have a positive impact on other dimensions of child well-being, such as school achievement and infant mortality rates. Yet in comparisons to other rich industrialized countries, the United States scores somewhat below average in the area of student achievement and scores the highest among all countries in infant mortality rates (UNICEF, 2007). This sobering fact serves as a

¹¹ The ranking depends somewhat on the specific measure used in the cross-country comparisons and countries included in the analysis. Comparisons that look at spending as a percentage of GDP or GDP per capita (as in figures 2-5) show lower levels of spending in the United States than comparisons that look at absolute levels of spending in dollars per person or per household (as in figure 6). Other differences between figure 6 and figure 5 include the year examined (2000 vs. 1985-2000), the countries included (10 vs. 20) and the definition of educational expenditures (educational expenditures in figure 6 exclude tertiary education and include estimates of early education).

reminder that tracking the overall level of public expenditures, while important for understanding a society's level of investment in children, does not take into account cross-country variation in program effectiveness, costs, prices, family incomes, other determinants of need, or other factors that influence overall child well-being.

III. International Comparisons of Spending on Children and the Elderly

While my primary reason for reviewing the international literature was to compare the level of investment in children in the United States with that in other countries, the cross-national studies are also useful in answering a second set of questions. Is the age bias toward greater spending on elderly than on children as evident in other countries as in the United States? And, do trends across different countries lend empirical evidence to the question of whether rising expenditures on the elderly tend to crowd out expenditures on children?

The question of age bias in public expenditures is the prime motivation for much of the work on international expenditures on children, including Julia Lynch's book, *Age in the Welfare State*, from which I have already drawn estimates of expenditures on children. Each of the 20 OECD countries in her analysis spent more, per capita, on the elderly than on children over the 1985-2000 time period, even when educational expenditures are taken into account. Per capita expenditures on the elderly range from 1.2 to 1.5 times as much as per capita expenditures on children in Scandinavian countries, Australia and the United Kingdom, to 9 to 35 times as much in Spain, Greece and Portugal (see Table 1). The United States is in the middle of the range, spending 2.5 times as much on elderly as on children, according to my calculations based on the Lynch data.

The pattern of high expenditures on the elderly relative to children in all OECD countries over the 1985-2000 period continues a trend that was already observed in earlier studies, tracking data from 1960-1983 (O'Higgins, 1986) and 1959-1986 (Pampel, 1994). As the authors of the earlier studies observe, one should not expect a simple equality in the amount of public resources devoted to elderly and to children given their different situations; while children continue to receive primary support from parents, the elderly for the most part are no longer supported by family members in modern societies. For most researchers the question of elderly bias in public expenditures is thus not whether there is one, but how much and why it varies across countries – and whether age bias grows with the aging of the population.

Much of Lynch's book examines the reasons for cross-country variation in age orientation. As a summary measure of age orientation, she does not use the Elderly/Child spending ratio in table 1 but instead calculates an Elderly/Non-Elderly Spending Ratio (ENSR) that includes adults 19-64 as well as children in the non-elderly group. Her rationale for including working-age adults with children in this "ENSR" summary measure is that many non-elderly adults are parents, and so their benefits and well-being is enmeshed with that of their children. When educational expenditures are included, the United States has the fourth highest ENSR of the 20 OECD countries analyzed, surpassed only by Greece, Spain and Italy in terms of strong age bias toward the elderly. While the United States spends

moderate amounts on children (when including education), it spends so little on unemployment and other benefits for working-age adults and so much on retirement benefits for the elderly that the net result is a stronger elderly bias in public expenditures than is found in most other rich, industrialized nations.¹²

Table 1. Public Expenditures on Children and the Elderly in 20 OECD Countries, 1985-2000.

	A. Cash and Services Per Child (0-15)	B. Education Per Child (0-20)	C. Composite Measure of Spending Per Child (A+B)	D. Cash and Services Per Elderly Person (65+)	E. Elderly/Child Ratio (D/C)
	(percent of GDP per capita)				
Sweden	22.9	31.2	54.1	62.3	1.2
Denmark	19.4	33.4	52.8	61.5	1.2
Norway	16.5	29.9	46.4	58.4	1.3
Australia	8.9	17.2	26.1	37.0	1.4
United Kingdom	11.8	19.2	31.0	46.5	1.5
Canada	3.4	23	26.4	45.2	1.7
Ireland	6.5	18.8	25.3	46.8	1.9
New Zealand	10.2	21.5	31.7	58.8	1.9
Japan	2.4	15.9	18.3	44.5	2.4
United States	2.4	17.2	19.6	49.5	2.5
Germany	12.0	11.3	23.3	70.7	3.0
Finland	18.0	4.69	22.7	70.2	3.1
Netherlands	8.4	9.31	17.8	65.6	3.7
Austria	17.7	1.83	19.5	91.4	4.7
Belgium	13.0	0.57	13.6	63.8	4.7
France	12.9	3.41	16.3	84.1	5.2
Italy	5.5	11.6	17.1	90.4	5.3
Portugal	4.7	0.11	4.8	45.0	9.3
Greece	7.2	0.04	7.2	74.0	10.3
Spain	1.6	0.11	1.8	60.7	34.7

Source and notes: Lynch (2005), table 2.4, 2.5 and 2.1. Expenditures on cash and services for children and elderly are for 1985-2000; educational expenditures are for 1992-1998 as explained further in the note to figure 5. Note that the data on children in columns A-C of this table are the same as the data presented in figure 5.

Not surprisingly, the United States shows an even higher elderly bias when Lynch calculates the ENSR without education. Under this version of the ENSR, the United States is second only to Japan in terms of age bias. The inclusion of health expenditures, not included in either ENSR due to incomplete data, would provide a further tilt toward the elderly in the United States, because health spending is more strongly weighted toward the elderly in the United States than in other OECD countries. Overall, when looking across various measures of age bias, Lynch groups the United States, along with Japan, Italy and Greece, as tending to have more elderly-oriented policies, while more age-neutral policies

¹² Lynch (2005). Spending on the elderly is defined as elderly cash benefits and services for the elderly. Spending on the non-elderly includes cash benefits for families, family services, unemployment benefits and active labor market policies, and, in one form of the measure, educational expenditures. Expenditures on health, disability and housing are not included due to challenges in disaggregating such expenditures by age.

are found in countries such as the Scandinavian countries, the Netherlands, and certain English-speaking countries other than the United States (e.g., Ireland and New Zealand).

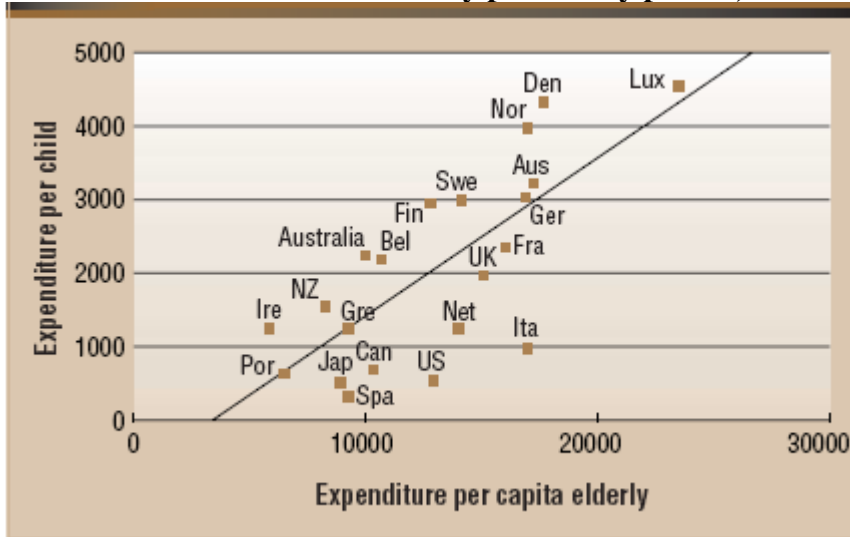
One pattern emerging from the Lynch data is that countries with relatively low levels of GDP devoted to non-health public spending (e.g., the United States and Japan) have more of a tilt toward the elderly than countries with high levels of GDP spent on social expenditures (e.g., Sweden and Denmark). Other than this overall pattern, however, she finds little evidence that the age orientation of expenditures can be explained by standard typologies used to classify welfare states. Nor is there a direct association between the size of a country's elderly population and its per capita spending on the elderly. Lynch concludes that higher spending on the elderly has arisen historically in various countries, driven by how welfare states and political institutions have developed, rather than resulting from the electoral power of the elderly as a special-interest group.

The lack of association between the size of the elderly population and per capita spending on the elderly is of particular interest in light of concerns about the effects of population aging on public spending in the United States and abroad. The American demographer Samuel Preston warned in 1984 that the rising size of the elderly and their growing political power was leading to higher spending on the elderly in the United States, quite possibly at the cost of lower spending on families with children.¹³ Since his speech, a number of researchers have examined longitudinal expenditure data across OECD countries to see whether there is much evidence that spending on the elderly has crowded out spending on children. In one such study, entitled "Are welfare states financing their growing elderly populations at the expense of their children?" Jonathan Bradshaw and Emese Mayhew (2003) find little empirical evidence of a systemic shift toward the elderly at the expense of children. In fact, they find that countries that provide more for the elderly also tend to be generous in spending on cash benefits and services for children, as can be seen in the simple correlation in figure 7.¹⁴

¹³ As Preston noted, the opposite trend might have been observed: one could imagine that spending on the elderly could decrease on a per capita basis as the elderly population grew if a fixed amount of social resources for "the elderly" in a country were spread among a larger population. One also could imagine that societal aging would lead to more investments in children if a country were concerned with preparing the next generation to take on the task of supporting public pension systems (Preston, 1984).

¹⁴ Unless mentioned otherwise, all the analyses that follow focus on cash benefits for the elderly and children, sometimes including tax credits and/or including services, but not including education or health expenditures.

Figure 7. Expenditure on family benefits and services per child by expenditure on benefits and services for the elderly per elderly person, 1998



Source: Bradshaw and Mayhew (2003), figure 4.

An earlier study by Fred Pampel (1994) also provides little evidence that population aging has had a direct negative effect on spending on children. Expenditures on pensions and family allowances were positively correlated over the 1959-1983 period, leading Pampel to conclude that countries either spent a lot or a little in both areas. In a more detailed multivariate analysis, Pampel explored whether age inequality in spending grew or moderated as a country's population aged. He found that political context mattered more than demography. As populations aged, benefits for children were expanded along with benefits for the elderly in countries with high levels of left party rule, labor parties and centralized governments, presumably because class interests encouraged political solidarity and universal benefits. In contrast, the aging of the population was associated with growing age inequality in spending in countries with a more pluralistic political environment and less left-party rule. Children did not actually lose benefits – in fact, benefits for children grew substantially over this period in all countries – but the rate of growth was higher for spending on the elderly than for children's benefits in the latter group of countries, resulting in a stronger tilt toward the elderly over time. Pampel's interpretation of this outcome is that "nations with fragmented class organizations, a weak labor movement, and a decentralized political system tend to develop diverse, numerous, and specialized interests...[making] spending particularly responsive to the resources – including size – of age groups." In other words, while historical data provides little evidence of declines in children's benefits in response to societal aging, the potential for such declines in the future may be more of a threat in the United States, with its more pluralistic political environment, than in Europe.

Samuel Preston's concern regarding possible declines in spending on children and child well-being as a result of population aging is the explicit focus of Janet Gornick's (2006) analysis of social expenditures in 14 OECD countries over 1980-1995. She finds clear evidence of population aging: the elderly populations increased as a share of the population in all 14 countries over this time period, while the child share of the population decreased

in all but the United States (where it stayed constant). This graying of the population was accompanied by an increase in per capita spending on elderly cash benefits in 13 of the 14 countries, as predicted by Preston. However, per capita spending on cash benefits for children also increased in 11 of the 14 countries. In fact, in 8 of the 14 countries, including the United States, family cash expenditures per child grew at a *faster* rate than old age spending per elderly person, in direct contradiction to Preston's thesis.

Even so, Gornick does not dismiss concerns about intergenerational warfare. She does find some evidence of "Prestonian" scenarios unfolding as the 14 countries dealt with the rapid aging of their populations. First, she finds a greater shift in expenditures toward the elderly in countries where population aging is particularly rapid. In this regard, she suggests that "Italy...might be 'the extreme 'Preston case'; its elderly-to-child population ratio skyrocketed as did its elderly-to-child spending ratio" (Gornick, p. 220). Second, the tilt toward elderly expenditures was larger in countries with slower than average growth in total social expenditures as a percentage of GDP, suggesting that children might not fare as well under conditions of scarce resources. A prime example is the Netherlands. The only country where social expenditures declined relative to GDP over the time period under study, the Netherlands also is one of the three countries that experienced a decline in per capita family spending during this time period.¹⁵ In other words, her finding that children's benefits increased despite populating aging may be particular to the time period studied, and there may be more danger that children's spending will be crowded out in the future, if growth in overall social expenditures comes to an end.

Following Preston, Gornick investigates how child and elderly poverty rates changed over the same period as the changes in public expenditures. Not surprisingly, elderly poverty rates declined, on average, from 1980 to 1995, concurrently with the increase in spending on the elderly. In another study, Gruber and Wise (2001) estimate a 1.33 percentage point decline in elderly poverty rates for every percentage point of GDP transferred to the elderly. Child poverty rates, however, did not fall but in fact increased between 1980 and 1995, despite the increased spending on children. That is, the disturbing trend of rising child poverty is not unique to the United States. Gornick attributes the rise in child poverty to deteriorating labor market conditions and an increase in single motherhood, twin factors that swamped the effects of increased cash benefits to families. Her analysis provides further support to what was laid out in the earlier discussion of child poverty. While public expenditures can play a role in reducing child poverty rates, child poverty is also driven to a considerable degree by what is going on in labor markets and families.

Conclusion

I began reviewing the international literature on social expenditures in order to learn whether the United States invests less in children than comparable countries. Careful reading of the literature reveals that while the United States spends less in some critical areas, most notably cash supports to families and early education, its high spending on public education and on various governmental and non-governmental forms of health care

¹⁵ The other two countries are Italy, with its rapidly growing elderly population, and Germany, whose spending patterns in 1980-1995 may be atypical because of unification.

more than compensates. Thus, overall, the United States spends as much if not more than most rich countries on children.

Low spending on cash benefits has been emphasized in much of the literature critiquing the United States for its low expenditures on children and its high child poverty rates. Indeed, the cross-national evidence suggests that child poverty rates would be lower in the United States under a different set of cash transfer and tax policies. However, labor market conditions and family composition also impact child poverty rates, both in the United States and abroad. Samuel Preston seems to have over-emphasized the extent to which high child poverty rates are the fault of intergenerational competition and increased allocation of resources toward the elderly.

It is true that all OECD countries spend more, per capita, on cash benefits for the elderly than on cash benefits for families and children and that the tilt toward the elderly is particularly strong in the United States. However, several studies have failed to find evidence that spending on children has declined over time in the face of rising elderly populations and elderly expenditures. In fact, per capita expenditures on children and families have continued rising during this period of population aging, in the United States and in most industrialized countries. A key question is whether this will remain true in the future. The issue of crowding out may be more severe if the elderly-to-child population ratio skyrockets or if the growth in overall social expenditures comes to an end. Moreover, this threat may be higher in the United States than many European countries, due to our pluralistic political environment and tendency to be responsive to fragmented and specialized interests.

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