

**ESTIMATING THE ECONOMIC COST OF CHILDHOOD POVERTY
IN THE UNITED STATES**

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ABSTRACT

Poverty has been an issue of ongoing concern for social work practitioners and researchers over the decades. The societal impact of poverty upon a broad range of problems is widely acknowledged throughout the field. However, one vital piece of information regarding poverty has often been missing – its economic cost. This study presents new estimates into the annual costs of childhood poverty in the United States by updating earlier research and including previously unmeasured costs. Our analysis indicates that the annual aggregate cost of U.S. child poverty is \$970.3 billion dollars, representing 5.4 percent of the gross domestic product (GDP). These costs are clustered around the loss of economic productivity, increased health and crime costs, and increased costs as a result of child homelessness and maltreatment. In addition, we estimate that for every dollar spent on reducing childhood poverty, the country would save nearly 7 dollars with respect to the economic costs of poverty. The implications of these findings are discussed.

KEY WORDS: childhood poverty, economic costs, social work advocacy

INTRODUCTION

The profession of social work has historically confronted many of society's most vexing social problems and challenges. Beginning at the end of the 19th and early 20th centuries, social work arose to confront the challenges of poverty and the destructive conditions surrounding impoverishment. Throughout the 20th and 21st centuries, the profession has expanded to tackle a variety of conditions that diminish the quality of life. These include racial disparities, mental illness, child abuse, community disorganization, and many others.

Today, social work addresses a wide range of social and economic problems that impact upon the well-being of individuals, families, and communities. Yet underlying many of these problems remains the destructive condition of poverty. To take but one example, poverty has been shown to exert a powerful influence upon an individual's physical and mental health. Those living in poverty tend to have significantly worse health as measured by a variety of indicators when compared to the nonpoor (Barr, 2014).

The effect of poverty upon children is particularly destructive. As Rank (2004) and others have argued, poverty serves to stunt children's physical and mental development. Poor infants and young children in the United States are far more likely to have lower levels of physical and mental growth (as measured in a variety of ways) than their nonpoor counterparts (Council on Community Pediatrics, 2016). As children grow older, and if they continue to reside in poverty, the disadvantages of growing up poor multiply. These disadvantages include attendance at inferior schools (Biddle, 2013), conditions associated with poverty stricken neighborhoods (Brooks-Gunn, Duncan, & Aber, 1997), unmet health needs (Chung, 2016), and a host of other hardships.

The result is that poverty exacts a heavy toll upon the poor. However, what is perhaps less obvious are the economic costs of poverty to our nation as a whole. In this paper we seek to address what some of those costs might actually be.

We begin by noting that the United States is generally considered the wealthiest country in the world. Yet it is also recognized that the U.S. ranks near the top among the industrialized countries with respect to the extent of its poverty and income inequality (United Nations Development Programme, 2015). Whether we examine children's rates of poverty, poverty among working age adults, or poverty within single parent families, the story is much the same. The U.S. has extremely high rates of poverty in comparison to other OECD countries (Smeeding & Theuenot, 2016).

Although there are many potential reasons for this paradox of poverty amidst plenty, we would argue that one in particular stands out – the U.S. lacks the political will to seriously address poverty. Since President Johnson's declared "War on Poverty" in the 1960's, the U.S. has largely retrenched from supporting and funding strong anti-poverty programs (Brady, 2009; Kenworthy, 2014).

This lack of political will can be attributed to many factors. Among them are the historical and cultural emphasis on individualism and self-reliance, the racial and ethnic heterogeneity of the U.S. population, and the overall tendency towards limited government (Alesina & Glaeser, 2004). However, we would argue that an additional factor for understanding the lack of a political will to address poverty has been a failure to truly appreciate the economic costs that poverty extracts from the nation.

In the parlance of social policy, it is important to understand and acknowledge the estimated costs of a social problem. By doing so, one is better able to gauge the overall scope of a problem, and what savings can be accrued by reducing or eliminating the problem.

Certainly there has been much discussion regarding the human costs of poverty. Yet surprisingly, very little has been written about what the economic costs of poverty might be. Being able to derive a reasonable and prudent estimate of the economic costs of poverty would appear to be an essential piece of information for social workers and policy makers striving to alleviate poverty. In short, it provides a fiscal imperative for poverty reduction.

LITERATURE REVIEW

To our knowledge, there have been only two attempts to estimate the economic costs of poverty. In both cases, researchers analyzed the economic impact of childhood poverty.

The first analysis was a 1994 study commissioned by the Children's Defense Fund (CDF). This project, entitled *The Costs of Child Poverty Project*, pulled together several different policy analyses in order to arrive at a range of estimates regarding poverty's economic impact (Children's Defense Fund, 1994). The Panel Study of Income Dynamics (PSID) data was used to estimate the price of childhood poverty upon future economic productivity. The argument was that poverty during childhood suppresses levels of education, along with dampening an individual's ability to acquire valuable job skills. These, in turn, result in children being less economically productive as adults. Economic productivity was measured by the amount of paid work in hourly wages during adulthood.

The CDF estimated that the overall economic costs of one year of child poverty ranged from 36 billion dollars to 177 billion dollars, depending on the assumptions and data being used.

The bottom line was that childhood poverty represented a significant drag on economic productivity to the U.S. economy.

A second attempt to measure the costs of child poverty was designed to be somewhat broader than the CDF study (Holzer et al., 2007, 2008). Like the CDF study, the Holzer study took into account the impact of poverty upon economic productivity and output, but it also attempted to measure the effect of poverty upon increased criminal activity, as well as elevated health expenditures among the poverty stricken.

The authors reviewed a wide range of research studies that examined the statistical relationship between growing up in poverty and children's future earnings, likelihood to engage in crime, and quality of health in later life. Based upon an overall average of these effects, Holzer and colleagues derived an estimate of the costs of childhood poverty. They calculated that growing up in poverty reduced the nation's aggregate output by 170 billion dollars a year. Similarly, childhood poverty raised the costs of crime by 170 billion dollars a year. Finally, children's impoverishment resulted in increased health expenditures of 164 billion dollars a year.

Putting these three estimates together resulted in an overall annual cost of childhood poverty in 2006 of approximately 500 billion dollars, or nearly 4 percent of overall gross domestic product (GDP). As the authors write, "The high cost of childhood poverty to the U.S. suggests that investing significant resources in poverty reduction might be more cost-effective over time than we previously thought" (Holzer et al., 2007: 2).

Yet as both of these studies readily acknowledge, their cost estimates undoubtedly underestimate the true expense of poverty. For example, there are many additional costs that have not been accounted for, including child homelessness and maltreatment costs. Furthermore, both studies have been conducted a number of years ago. Consequently, there is a need to

provide an analysis that both updates these original costs of poverty as well as incorporates additional costs that were not included in these seminal studies.

In our analysis, we build upon this research to arrive at a new estimate of the cost of U.S. child poverty. Specifically, we use the Holzer study as our starting point. We recompute the costs of lost economic productivity, increased crime rates, and increased health expenditures. We then calculate several additional costs that were not included in this study.

METHODOLOGY

There is a substantial literature that estimates the cost of social problems (Anderson, 1999; Cohen, 2005; Fang et al., 2012). These studies identify a “cost” as something that reduces the aggregate welfare or output of the country. Thus, costs include the forgone value of resources (opportunity cost) or social harms that people would pay to avoid (Boardman et al., 2010). For example, if children earn less money as adults because they grew up in poverty, this constitutes lost productivity for the country as a whole (Holzer et al., 2008). Studies that measure the cost of social problems then tally these individual costs (which are identified based on prior literature) to produce an aggregate, total cost of the social problem (Anderson, 1999; Cohen, 2005; Fang et al., 2012; Holzer et al., 2008).

An assumption of this study (and of the cost measurement literature in general) is that there is a causal relationship between the social problem and the costs identified. In the Holzer study, for example, it was assumed that growing up in poverty as a child had a causal effect on wages earned as an adult, health outcomes, and the likelihood of committing street crime. However, as the authors of that study point out, identifying a direct causal effect may be challenging. Hereditary effects, rather than growing up in poverty, might instead be partially responsible for any negative social outcomes (Holzer et al., 2008). For this reason, the authors of

the Holzer study estimated the amount of child poverty costs attributable solely to environmental effects by attempting to remove the hereditary portion.

A second major methodological consideration in estimating the various costs of child poverty, is the reliance on an incidence-based approach. The Holzer study as well as other cost estimating research (Anderson, 1999; Fang et al., 2012) generally use this approach. The incidence-based approach calculates the lifetime costs of all new cases of child poverty occurring in a single year (Haddix et al., 2003). Consequently, the authors of the Holzer study (2008) multiplied the number of annual births by the child poverty rate to obtain the number of new cases when calculating the health cost of childhood poverty.

While this approach is straightforward, it does not account for the fact that the various new cases of child poverty occurring in a year may have different lifetime costs. For example, a child who is born into poverty and remains in poverty for the next 18 years is likely to have a higher lifetime cost than a child who is born into poverty but is only poor for the first year of his or her life. The authors of the Holzer study account for this when calculating the effect of child poverty on adult earnings; they do so by assigning a greater earnings reduction to children who spend more than half of their childhood in poverty.

Our analysis uses these same calculations from the Holzer study while adding four previously unmeasured costs. These additional costs include the cost of increased child maltreatment, child homelessness, crime deterrence and corrections, and societal costs of incarceration. We include these costs since they have been identified in prior research as being attributable in large part to poverty and there is data readily available on these costs. The inputs used to estimate each of these costs were obtained from prior literature and are discussed in the results section.

Finally, our analysis relies on data from 2015 whenever possible. In the absence of 2015 figures, data from 2012, 2013, or 2014 are used. However, these costs are all adjusted to reflect 2015 dollars.

RESULTS

Reduced earnings (\$234.5 billion)

Children who experience poverty earn less money when they become adults. This constitutes lost productivity and is thus a cost of child poverty. The Holzer study calculates the size of this effect by considering a number of factors. First, the authors identify the effect that a parent's earnings have upon a child's earnings (the intergenerational elasticity), being careful to isolate the difference of this effect between a family in poverty and a family with income twice that of the poverty line (Holzer et al., 2008). They then apply this effect to the percentage of GDP that is attributable to earnings. To account for the fact that children are in poverty for different spells of time and that shorter spells might have a lower reduction in earnings, the authors of the Holzer study reduce the effect for children who had a shorter poverty spell by 50 percent. The combined reduction in GDP is 2.1 percent, which the authors adjust downward by 40 percent to eliminate hereditary factors that might explain the reduced earnings. The resulting reduction in gross domestic product is 1.3 percent ($2.1\% * 60\%$). This figure is then multiplied by the GDP at the time, which was \$13.2 trillion, to produce a total of \$170 billion.

This cost estimate is denominated in 2006 dollars. However, the size of the economy has grown considerably since 2006. According to the Bureau of Economic Analysis, the GDP was \$18.036 trillion in 2015 (Bureau of Economic Analysis, 2016). Applying the reduction factor estimated in the Holzer study to the 2015 GDP of \$18.036 trillion yields a total cost of \$234.5 billion in reduced earnings.

Increased health costs (\$192.1 billion)

The Holzer study analyzes three health-related costs: (1) direct health expenditures; (2) special education costs; and (3) a reduction in quality-adjusted life years (QALYs). Direct health spending attributable to child poverty was estimated at \$22 billion, while increased spending on special education was calculated at \$4 billion (Holzer et al., 2008). To estimate the reduction in quality-adjusted life years (QALYs), the authors multiplied the number of children born annually by the poverty rate and the present value of a QALY ($4,000,000 * 15\% * \$248,000$). This results in a cost of \$149 billion, and a grand total of \$175 billion related to children's health. The authors then reduce this amount by 7 percent (the amount they estimated that was due to hereditary factors), resulting in a total cost of \$162.8 billion.

As with the analysis for reduced earnings, this figure is in 2006 dollars. However, the costs of health care have risen significantly since 2006 (Shi and Singh, 2015). We therefore convert the 2006 estimate of \$162.8 billion to 2015 dollars using the inflation calculator of the U.S. Bureau of Labor Statistics (2017). The result is an overall cost \$192.1 billion.

Increased victimization costs of street crime (\$200.6 billion)

Children in poverty are more likely to commit crime when they become adults. The authors of the Holzer study focused on the cost of street crime, which includes the costs suffered by victims of murder, assault, and other crimes. They note that this cost is \$700 billion annually and attribute 20 percent of this cost to people who grew up in poverty, which they then adjust by a factor of two in order to account for the underreporting of crime (Holzer et al., 2008). To isolate the amount of this cost that is attributable to environmental and not hereditary factors, the authors multiply this figure by 60 percent. This suggests that the cost of street crime attributable

to child poverty is \$170 billion ($\$700,000,000 * 20\% * 2 * 60\%$). Converting this figure from 2006 to 2015 dollars results in a cost of \$200.6 billion.

Increased Corrections and Crime Deterrence Costs (\$122.5 billion)

There are several additional crime costs that were not included in the Holzer study. Government spending on criminal justice (e.g., corrections costs), private spending on crime prevention by individuals (e.g., buying a car alarm), and the lost value of criminals' time (Ludwig, 2006) would decrease considerably in the absence of child poverty. These costs, which totalled \$612 billion in 2006, are multiplied by the amount attributable to child poverty (20 percent) and then adjusted to isolate the non-hereditary component of child poverty (60 percent). In addition, the lost value of criminals' time is multiplied by two to adjust for the underreporting of crime. These are the same methods Holzer et al. (2008) used to estimate the cost of street crime attributable to child poverty. The total cost is estimated to be \$103.8 billion, which is \$122.5 billion in 2015 dollars.

Increased Social Costs of Incarceration (\$83.2 billion)

A growing body of research suggests that incarceration creates a large number of social costs (Alexander, 2010; Western, 2006). These include costs to incarcerated persons, children and families, and communities (Clear, 2007). For example, incarceration results in increased rates of eviction, reduced rates of marriage and increased divorce, and criminal justice debt, among other things (DeVuo-Powell et al., 2015). The non-budgetary cost of incarceration has been estimated to be \$923.6 billion in 2014 (McLaughlin et al., 2017).

As the authors of the Holzer study assumed that the costs of crime would decrease in the absence of child poverty, this study assumes that incarceration (and thus, the social costs of incarceration) would decrease in the absence of child poverty. Removing the reduced earnings

of formerly incarcerated persons from the social cost of incarceration (to avoid double-counting of the reduced earnings already estimated by Holzer) yields a cost of \$693.6 billion. Applying the same assumptions from the Holzer study, that 20 percent of crime is attributable to poverty and 60 percent is due to non-hereditary factors, the estimated social cost of incarceration attributable to child poverty is \$83.2 billion.

Child homelessness (\$96.9 billion)

At some point in 2013 at least 2,483,539 children became homeless (Bassuk et al., 2014). Perlman and Willard (2012) identify thirteen different categories of costs stemming from child homelessness; these categories include emergency room visits, lead toxicity, and mental health conditions. The aggregate, annual cost per homeless child is estimated at \$37,168 in 2011 (Perlman & Willard, 2012). Multiplying this figure by the number of homeless children yields an estimated cost of \$92.3 billion, which is 96.9 billion in 2015 dollars.

Increased child maltreatment (\$40.5 billion)

The annual cost of child maltreatment in the United States is \$124 billion in 2010 (Fang et al., 2012). Child abuse and neglect cannot be viewed outside the context of poverty (Pelton, 1978). There is evidence that family income plays a causal role in child maltreatment (Cancian et al., 2013). Thus, if millions of children were not poor, the cost of child maltreatment might be significantly lower. An estimated 30 percent of children would not be in the welfare system if they were not poor and in need of housing (Courtney et al., 2004; Torrico, 2009). Applying this percentage to the annual burden of child maltreatment yields a total cost of \$37.2 billion, or \$40.5 billion in 2015 dollars.

Total costs (970.3 billion)

Summing the individual costs listed above indicates that the annual cost of child poverty in 2015 was approximately \$962.9 billion (see Table 1). This represents 5.4 percent of U.S. GDP in 2015 and is nearly twice as large as the previous estimate from the Holzer study (Holzer et al., 2008). More than one-third of the costs pertain to increased crime, corrections, and the societal costs of incarceration. This cost is significant not only for its magnitude, but because it is borne by all members of society. Individuals who believe themselves to be insulated from the problem of child poverty may end up the victim of street crime or paying taxes to fund prisons. The cost of reduced earnings, health costs, child homelessness, and child maltreatment are also substantial.

[Table 1 about here]

An important caveat to our findings is that one could conceivably argue that we have misestimated the costs of poverty by relying on the methodology in the Holzer study, which uses the official poverty line as its benchmark. Recent work might suggest using the Supplemental Poverty Measure instead, which takes into account factors not included in the official measure (Wimer et al., 2016). In 2015, the child poverty rate according to the Supplemental Poverty Measure was approximately 20% lower than the official child poverty rate (U.S. Census Bureau, 2016). Adjusting our estimate for the aggregate cost of child poverty downward by 20 percent results in a figure of \$776.2 billion. This is nevertheless a substantial amount that is still over 50 percent larger than the estimate from the original Holzer study.

In summary, the economic costs that we have calculated reflect an overall stunting of human capital. That is, the insidious effect of poverty upon a child is that it can potentially

undercut his or her human potential. Impoverished children grow up with fewer skills and less ability to contribute to the productivity of the economy, more likely to engage in crime, while at the same time encountering a greater frequency of health care problems. As a result, both children and the wider society pay the price.

DISCUSSION

Several broad arguments can be made in support of reducing poverty. Many of these revolve around issues of values and social justice. For example, poverty amidst plenty would appear to fundamentally undermine the moral fabric and sense of decency in a society. This is particularly the case for childhood poverty. In addition, the prevalence of childhood poverty violates many of the values that the profession of social work stands for as well.

Childhood poverty would also appear to weaken the American principle and ideal of equality of opportunity. Children being raised in poverty do not have the same chances for success as children who are raised in middle or upper income families. This contradicts our belief in “liberty and justice for all.”

The argument presented here, however, is of a different nature. It is one that is rooted in the concept of self-interest. We contend that alleviating poverty is in all of our collective self-interests. Whether we realize it or not, we each pay a high price for allowing poverty to walk in our midst. Yet what exactly is that price? In this paper we have attempted to provide an empirical answer to such a question.

In approaching this question, it is important to keep in mind three basic principles in weighing the economic costs of poverty. First, poverty ultimately undermines human potential by stunting overall individual development and capacity. For example, the effect of childhood poverty upon economic productivity is largely the result of poverty reducing the quantity and

quality of education that children receive, which then affects their ability to compete effectively in the labor market.

Second, a fundamental tenet of social policy is that the prevention of a problem is often a more cost effective approach than programmatic solutions on the back-end of a problem. The old saying “An ounce of prevention is worth a pound of cure” is certainly apropos. It is not a question of paying or not paying. Rather, it is a question of how we want to pay, which then affects the amount we end up spending. In making an investment up front to alleviate poverty, the evidence suggests that we will be repaid many times over by lowering the costs associated with a host of interrelated problems.

Third, a broad net should be cast in terms of conceptualizing poverty reduction as being in our self-interest. This sense of a broad awareness surrounding the costs of poverty can be referred to as enlightened self-interest. In other words, by becoming aware of the various costs associated with poverty or, conversely, the various benefits associated with the reduction of poverty, we begin to realize that it is in our own self-interest to combat the condition of poverty.

Encapsulating all three of these points is a powerful quote from the earlier cited Children’s Defense Fund Report. In summarizing the costs of childhood poverty, they note,

The children who suffer poverty’s effects are not its only victims.

When children do not succeed as adults, all of society pays the price: businesses are able to find fewer good workers, consumers pay more for their goods, hospitals and health insurers spend more treating preventable illnesses, teachers spend more time on remediation and special education, private citizens feel less safe on

the streets, governors hire more prison guards, mayors must pay to shelter homeless families, judges must hear more criminal, domestic, and other cases, taxpayers pay for problems that could have been prevented, fire and medical workers must respond to emergencies that never should have happened, and funeral directors must bury children who never should have died (Children's Defense Fund, 1994: 99).

Keeping the above principles in mind, we have attempted to estimate the economic cost of childhood poverty in this paper. In order to do so, we quantified the costs of lower economic productivity, higher health care and criminal justice costs, and child homelessness and maltreatment costs. By summing together these costs, we arrived at an overall estimate that in 2015, childhood poverty in the United States was costing us \$970.3 billion dollars a year. This number represents 5.4 percent of the U.S. annual GDP. To argue that we pay an enormous economic price for having the highest rates of poverty in the industrialized world is clearly an understatement. Childhood poverty represents a significant drain on both the U.S. economy and society as a whole. It results in sizeable losses in economic productivity, higher health care and criminal justice costs, and significant costs associated with remedial efforts to address the fallout of childhood poverty.

One question that naturally arises in a study such as ours, is what would it cost to reduce poverty in the United States? Furthermore, perhaps it is more cost-effective to accept the high levels of U.S. childhood poverty than to pay the price of reducing poverty?

With these questions in mind, two recent analyses have indicated that the cost of reducing childhood poverty is a fraction of what such poverty is costing us. The Children's Defense Fund, in conjunction with the Urban Institute, has estimated that childhood poverty could be reduced by 60 percent at a cost of 77 billion dollars (Giannarelli et al., 2015). This would be accomplished through expanding an array of programs which have been shown to be effective in reducing poverty such as the Earned Income Tax Credit, the minimum wage, child care subsidies, and so on. Similarly, Shaefer and colleagues (2016) have estimated that by transforming the Child Tax Credit into a Universal Child Allowance, childhood poverty could be reduced by 40 to 50 percent, with extreme poverty eradicated, at a cost of approximately 70 billion dollars. Taking these studies into account, if we assume that childhood poverty could be roughly cut in half through an annual expenditure of 70 billion dollars, that 70 billion dollars would save us approximately half of the 970.3 billion dollars that we project poverty costs us, or 485 billion dollars. The bottom line is that the ratio of savings to cost is nearly 7 to 1. For every dollar spent in poverty reduction, we would save almost 7 dollars in terms of the economic fallout from poverty.

Consequently, reducing poverty is not only justified from a social justice perspective, but from a cost-benefit perspective as well. Investing in programs that reduce childhood poverty is both smart and effective economic policy.

It should be noted that there are many additional costs that we have clearly not accounted for in this analysis. For example, poverty has been shown to be strongly related to teenage childbearing. In turn, research suggests that the economic costs of teenagers bearing children is high (Fletcher & Wolfe, 2009). By reducing childhood poverty, which would lower teenage

childbearing, we would bring down these economic and societal costs. Consequently, our estimates should be seen as a lower bound with respect to the costs of childhood poverty.

In addition, there are significant costs associated with poverty during adulthood that we have not at all taken into account. In our analysis we have focused only on the costs of childhood poverty. However, poverty also strikes individuals at various points throughout their lives. In fact, as Rank and colleagues have shown, poverty will strike a majority of Americans at some point during their adulthood (Rank, Hirschl, & Foster, 2014; Rank, 2004). As such, we believe our overall figure of \$970.3 billion dollars a year is a significant underestimate of the true costs of American poverty.

In conclusion, this paper has built upon the framework provided in earlier analyses of the costs of childhood poverty. We have refined the methodology in order to take into account additional costs not considered in those original studies, as well as to update their analyses with more recent cost accounting. The bottom line is that the price of childhood poverty is exceedingly high. The profession of social work is well positioned to advocate and lobby for the alleviation of poverty with such knowledge. Recognizing the enormous costs of poverty is an important step toward summoning the political will to address this economic and societal blight upon the nation.

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Table 1
The Costs of Child Poverty

Type of Cost	Dollar Amount (in billions)
Reduced earnings	234.5
Increased health costs	192.1
Increased victimization costs of street crime	200.6
Increased corrections and crime deterrence costs	122.5
Increased social costs of incarceration	83.2
Increased child homelessness costs	96.9
Increased child maltreatment costs	40.5
Total cost of child poverty	970.3