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The Economic Costs of Child Poverty

Testimony Before the U.S. House Committee on Ways and Means

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Abstract

In testimony before the U.S. House Ways and Means Committee, visiting fellow Harry Holzer says the costs to the United States associated with childhood poverty total about $500 billion per year, or the equivalent of nearly 4 percent of GDP. This suggests that investing significant resources in poverty reduction might be more cost-effective than previously thought.

Testimony

Mr. Chairman,

Thank you for inviting me to speak today on the economic costs of poverty to the United States.

I'd like to share with all of you some recent findings of a paper I coauthored with several colleagues for the Task Force on Poverty of the Center for American Progress. The paper attempts to estimate the economic costs of child poverty in the United States.

Most arguments for reducing poverty in the United States, especially among children, rest on a moral case for doing so—one that emphasizes the unfairness of child poverty and how it runs counter to our national creed of equal opportunity for all.

But there is also an economic case for reducing child poverty. When children grow up in poverty, they are more likely as adults to have low earnings, which in turn reflect low productivity in the workforce. They are also more likely to engage in crime and to have poor health later in life. Their reduced productive activity generates a direct loss of goods and services to the U.S. economy. Any crime in which they engage imposes large monetary and other personal costs on their victims and on the taxpayer of administering our huge criminal justice system. And their poor health generates illness and early mortality that requires large health care expenditures, impedes productivity, and ultimately reduces their quality and quantity of life.

In each case, we reviewed a range of rigorous research studies that estimate the average statistical relationships between growing up in poverty, on the one hand, and one's earnings, propensity to commit crime, and quality of health later in life, on the other. We also reviewed estimates of the costs that crime and poor health per person impose on the economy. Then we aggregated all of these average costs per poor child across the total number of children growing up in poverty in the United States to estimate the aggregate costs of child poverty to the U.S. economy. We had to make a number of critical assumptions about how to define and measure poverty, what level of income to use as a non-poverty benchmark, and which effects are really caused by growing up in poverty and not simply correlated with it. Wherever possible, we made conservative assumptions, in order to generate lower-bound estimates.

Our results suggest that the costs to the United States associated with childhood poverty total about $500 billion per year, or the equivalent of nearly 4 percent of GDP. More specifically, we estimate that childhood poverty each year:

- Reduces productivity and economic output by about 1.3 percent of GDP;
- Raises the costs of crime by 1.3 percent of GDP; and
- Raises health expenditures and reduces the value of health by 1.2 percent of GDP.

If anything, these estimates almost certainly understate the true costs of poverty to the U.S. economy. For one thing, they omit the costs associated with poor adults who did not grow up poor as children. They ignore all other costs that poverty might impose on the nation besides those associated with low productivity, crime, and health—such as environmental costs and much of the suffering of the poor themselves.

What does all of this imply for public policy? The high cost of childhood poverty to the United States suggests that investing significant resources in poverty reduction might be more cost-effective over time than we previously thought. Of course, determining the effectiveness of various policies requires careful evaluation research in a variety of areas. But a range of policies—such as universal pre-kindergarten (or pre-K) programs, various school reform efforts, expansions of the earned income tax credit (EITC) and other income supports for the working poor, job training for poor adults, higher minimum wages and more collective bargaining, low-income neighborhood revitalization and housing mobility, marriage promotion, and faith-based initiatives—might all be potentially involved in this effort. Given the strong evidence that already exists on some of these efforts (like high-quality pre-K and the EITC), some investments through these mechanisms seem particularly warranted.

At a minimum, the costs of poverty imply that we should work hard to identify cost-effective strategies of poverty remediation, and we should not hesitate to invest significant resources when these strategies are identified. In the meantime, we should also experiment with and evaluate a wide range of promising efforts.

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Other Publications by the Authors

- Harry Holzer

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