
Economic Costs of Early Childhood Poverty

Greg J. Duncan, Northwestern University

Ariel Kalil, University of Chicago

Kathleen M. Ziol-Guest, Harvard University

Report for the Partnership for America's
Economic Success

We know that some early education and home visitation programs generate long-run benefits that exceed costs

- What about income transfers?

Our question:

What would be the economic benefits of a policy that brought poor children's prenatal-to-age 5 family incomes up to the poverty line but made no other concurrent changes in the socioeconomic status of those children's families

Possible economic benefits of poverty reduction:

■ In childhood:

- ❑ Preventing grade failure and special education reduces school expenditures
- ❑ Better health
- ❑ Less crime
- ❑ Fewer nonmarital births

■ In adulthood:

- ❑ Higher earnings (productivity)
- ❑ Better mental and physical health

} Never
measured
before

Data

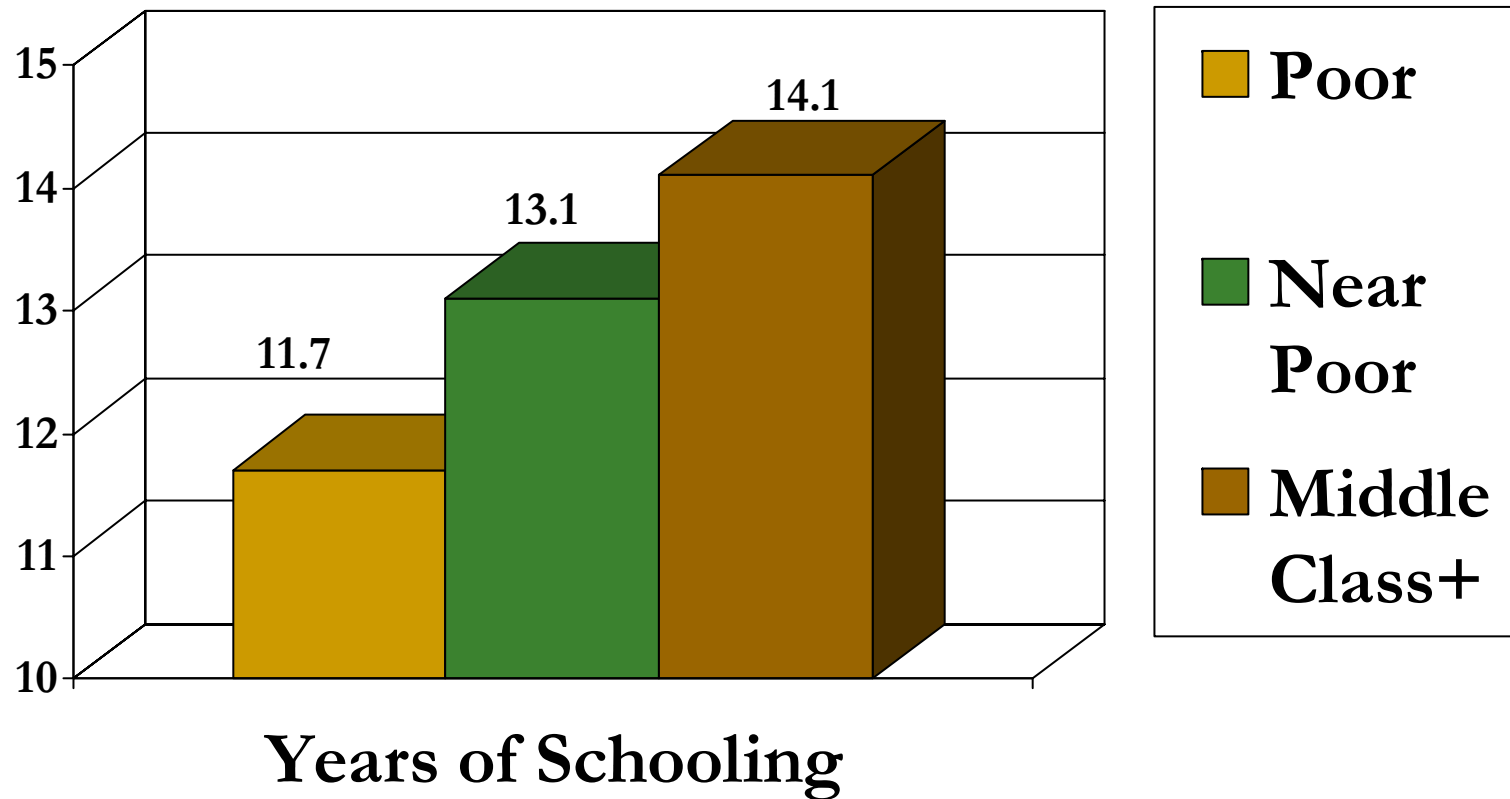
- Up to 35 years of data, beginning in the prenatal year, on a representative sample of U. S. children
(Panel Study of Income Dynamics)
 - Most adult outcomes measured between ages 25 and 30
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Simple comparisons

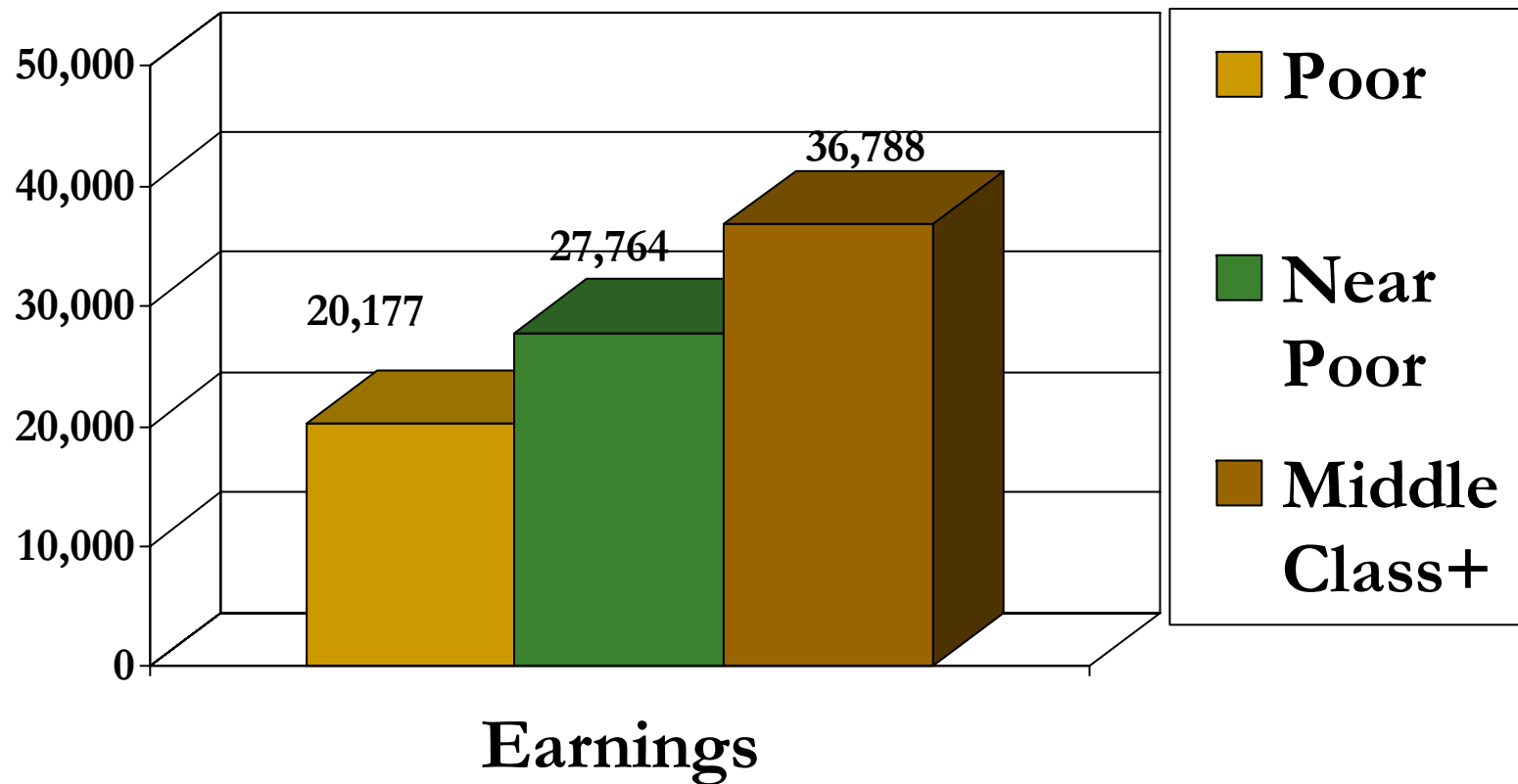
Compare adults outcomes for children with incomes between the prenatal year and age 5:

- Below the poverty line
 - 1-2 times the poverty line
 - 2+ times the poverty line
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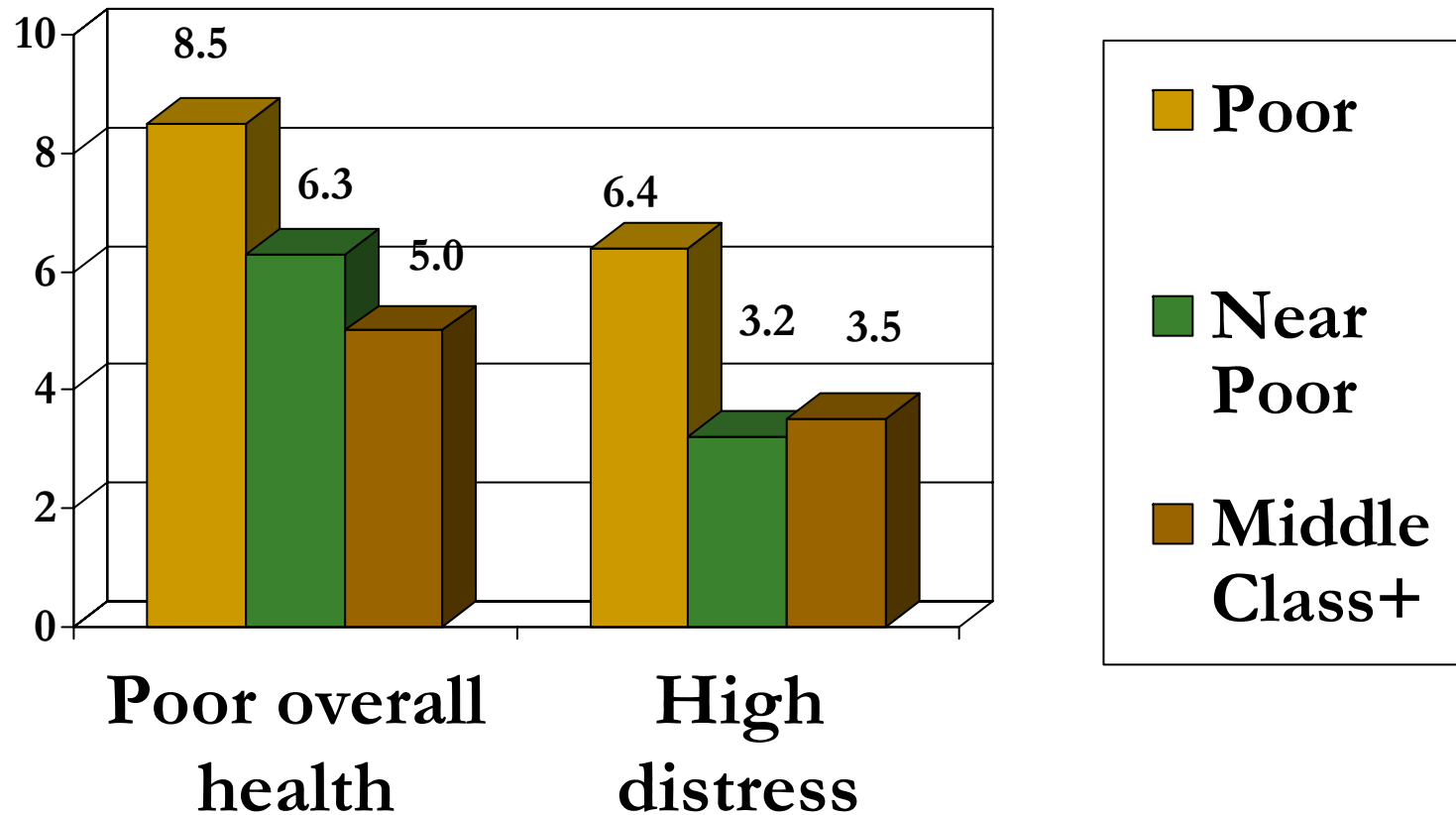
Completed Schooling by Early- Childhood Poverty Status



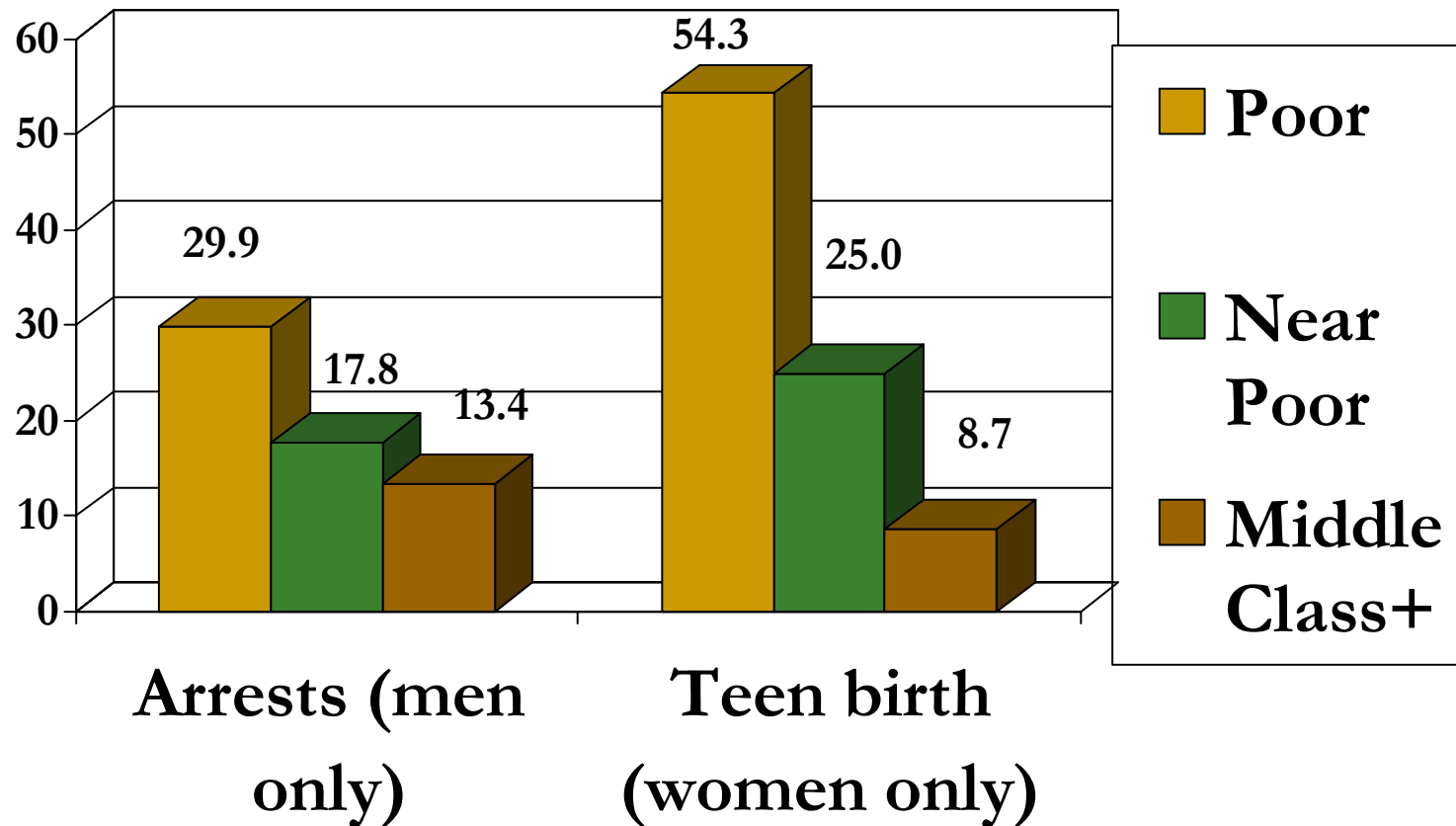
Adult Earnings by Early-Childhood Poverty Status



Adult Physical and Mental Health by Early Poverty Status



Crime and Nonmarital Childbearing by Early Poverty



To what extent are these associations causal?

- We estimated models relating adult outcomes to:
 - Prenatal to age-5 average income
 - Income ages 6-10 and 11-15
 - Parental education and test scores
 - Family structure at time of birth
 - Numerous other demographic characteristics
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Estimating benefits of eliminating early poverty

- Our models give us an estimated impact of increasing the incomes of poor children by \$X thousands per year in early childhood
 - Early-childhood poverty could be eliminated with \$4,326 per year per child between the prenatal year and age 5
 - What would be the benefits of such a transfer?
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Early poverty effects

- Early poverty effects for two outcomes passed our statistical tests:
 - Adult earnings (measured between ages 25 and 34)
 - Mental health, as measured with an index of psychological distress (e.g., depression and anxiety)
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Individual earnings benefits

- We estimate that eliminating poverty in early childhood would boost earnings by **12 percent per year**
 - In dollar terms, **this amounts to lifetime earnings increases of between \$20,000 and \$48,000 per child**, depending on the assumed duration of the poverty effect
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Aggregate earnings benefits

- Nationally, ~366,800 adults of any given age spent their early childhood in poverty
 - The aggregate earnings benefit of having eliminated poverty for, say, today's 25 year olds, **amounts to between \$7.6 billion and \$17.6 billion.**
 - If we take 25-34 year olds, the aggregate earnings benefit for eliminating the poverty of the 3.7 million who spent their early childhoods in poverty would **amount to between \$76 billion and \$176 billion.**
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Mental health benefits

- For psychological distress, eliminating poverty in early childhood would reduce the incidence of episodes of serious psychological distress during adulthood by one-quarter – from 6.4% to 4.8%.
 - We estimate the medical costs of treating such mental illness episodes to be about \$16,000 per person.
 - The aggregate benefit of this reduction is less than the earnings increase -- **\$94 million for a single-year cohort and \$940 million for individuals born over a ten-year period.**
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Benefits and costs – a partial accounting

- For today's young adults:
 - Cost of \$4,326 per year for 7 years amounts to **~\$70,000** per person at age 25
 - Earnings and mental health benefits range **between \$20,000 and \$48,000** per person
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Caveats

- We could not measure all of the important outcomes (e.g., marriage, citizenship)
 - None measured beyond early 30s (later-life health may be affected)
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greg-duncan
@northwestern.edu
