

Economic Costs of Early Childhood Poverty

Greg J. Duncan, Northwestern University
Ariel Kalil, University of Chicago
Kathleen M. Ziol-Guest, Harvard University

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Early education and home visitation programs generate long-run benefits that exceed costs

- What about income transfers?

Our question:

What would be the long-run economic benefits of eliminating poverty for children between the prenatal year and age 5?

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

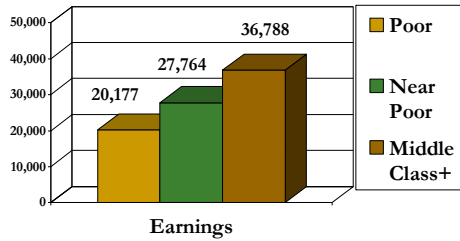
- Up to 35 years of data, beginning in the prenatal year, on a representative sample of U. S. children (Panel Study of Income Dynamics)
- Most adult outcomes measured between ages 25 and 34

Simple comparisons

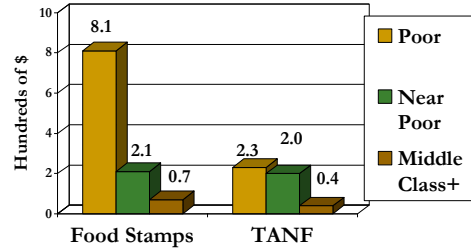
Compare adults outcomes for children with incomes between the prenatal year and age 5:

- Below the poverty line
- 1-2 times the poverty line
- 2+ times the poverty line

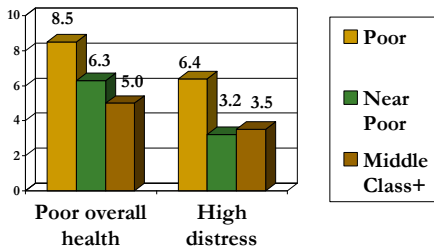
Adult Earnings by Early-Childhood Poverty Status



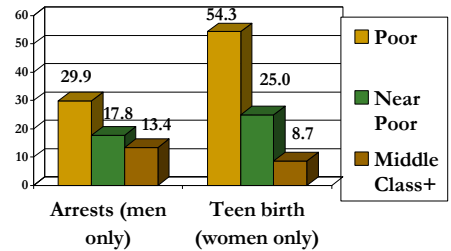
Food Stamp and TANF receipt by Early Poverty Status



Adult Physical and Mental Health by Early Poverty Status



Crime and Nonmarital Childbearing by Early Poverty



To what extent is poverty the cause?

Would merely giving poor families more income really make a difference?

Early poverty effects

- **Adult earnings** (measured between ages 25 and 34)
- **Adult work hours** (measured between ages 25 and 34)
- **Food stamp and TANF receipt** in adulthood
- **Adult mental health**, as measured with an index of psychological distress (e.g., depression and anxiety)

Individual earnings benefits

- We estimate that eliminating poverty in early childhood would boost the adult earnings of poor children by **29%** per year and work hours by **12%**.
 - In dollar terms, **this amounts to lifetime earnings increases of between \$53,000 and \$100,000 per child**, depending on the assumed duration of the poverty effect
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Individual earnings benefits

- For bringing incomes up to **150%** of the poverty line:

lifetime earnings increases range between \$105,000 and \$193,000 per child

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
 - Total earnings, welfare and mental health benefits range **between \$55,000 and \$102,000** per person
 - Taxpayer portion of these benefits range **between \$14,000 and \$24,000**
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Benefits and costs – 150% of poverty line

- Cost of \$7,066 per year for 7 years amounts to **~\$113,000** per person at age 25
 - Total earnings, welfare and mental health benefits range **between \$105,000 and \$193,000** per person
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greg-duncan
@northwestern.edu
