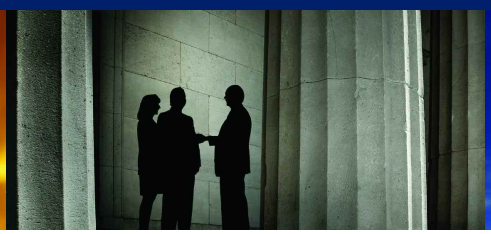
PARTNERSHIP FOR AMERICA'S ECONOMIC SUCCESS

Economic Costs Of Early Childhood Poverty:

Raising Young Children Out of Poverty Can Substantially Improve Their Odds of Economic and Life Success






Many factors influence a child's chances of life success—family, education, peers, innate ability, personality, choices, health, and family income. This report for the Partnership for America's Economic Success by Greg J. Duncan of Northwestern University and colleagues pinpoints the impact of increasing family income early in childhood. The researchers find that raising poor families' incomes to, or above, the poverty line has substantial positive economic benefits for both the family and for society.

Many American children are poor. The United States stands out among its Western peers for the large percentage of its children who are poor. Despite having the second highest rate of per capita income of the 20 developed OECD countries, we also have the highest child poverty rate, four times that of our top-ranked peers. In 2006, more than four million U.S. children age five and younger, or 20.7%, lived in poverty. For a family of three, this means total cash income in 2006 was less than $16,079. Many poor families had an income that was much lower.

Poverty is bad for children. A large body of research from many disciplines has documented that poor children fare worse as adults than children who grow up in more affluent families. Some of the effects are due to poverty itself, and others to the various conditions that

> ***"Raising the incomes of poor families to the poverty line through their children's kindergarten year would, on average, pay for itself just in increased adult earnings. Raising them above the poverty line provides even larger benefits."***

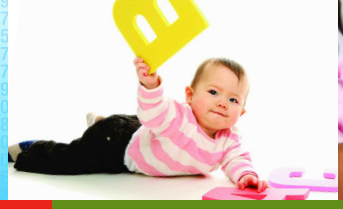
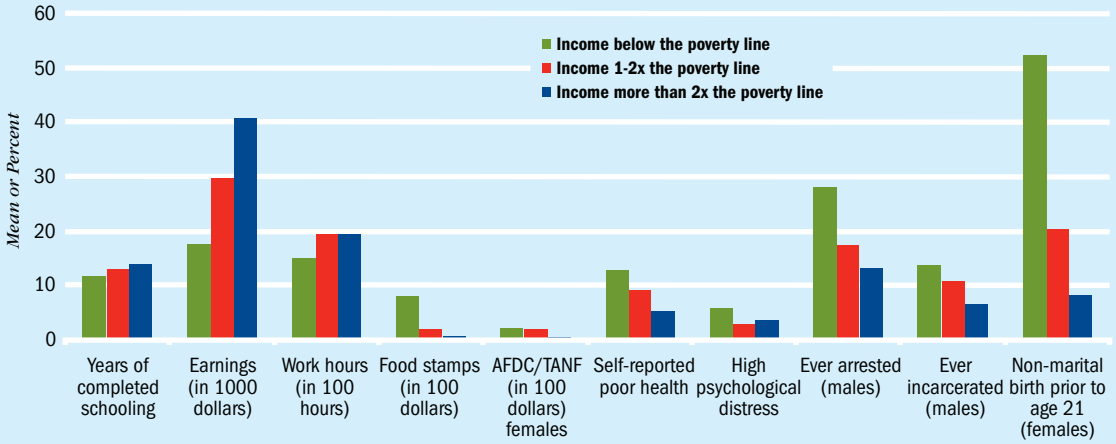


Figure 1. Early adult attainments, program participation, health, and behavior by poverty status* between the prenatal year and age 5



**Note: The figures in this table are from 2005, when the poverty line for a family of three was $15,736.*

accompany poverty, such as low parental education levels, unsafe neighborhoods, and poor health care and public schools. Data show substantially different outcomes for young children with family incomes below, near, and far above the poverty line. (See Figure 1)

How badly do poor children fare? Relative to their poor peers, children whose families exceed at least twice the povery line between the children's birth and fifth year:

- Complete nearly two more years of school;
- Work 33% more hours as adults;
- Earn about twice as much as adults;
- Receive $750 less per year in food stamps;
- Are only half as likely to report poor physical health or high levels of psychological distress;
- Are, if male, half as likely to be arrested or incarcerated;
- Are, if female, receiving nearly $200 less annually in cash welfare assistance and reducing their odds of becoming a single teen mother from over 50% to less than 10%.

What are the economic benefits of raising young children out of poverty? It is clear that living in poverty at a very young age is associated with a host of bad adult outcomes. Less certain are the causal connections: how might eliminating early childhood poverty increase a child's chance of success later in life? This research project estimates the individual and societal economic benefits of a single change: providing poor families with young children the money they would need to lift their income above the poverty line. (It does not specify how that money would be transferred.)

Specifically, the authors estimate that the $4,326 cash transfer per year needed to bring families up to the poverty line between conception and the end of the child's fifth year would increase lifetime earnings by between $53,000 and $100,000. When family income is raised to 150% of the poverty line, which is just less than $25,000 for a family of three, the return is even greater. Spending $7,066 per poor family per year in early childhood is associated with lifetime earnings increases of between $105,000 and $193,000. More generally, the study finds that these income increases would have the following impacts on poor children when they reach adulthood:



	At the Poverty Line	150% of the Poverty Line
Annual Cash Transfer	$4,326	$7,066
Outcome		
% Increase in Annual Work Hours	12.4%	20.4%
Increase in Lifetime Earnings	$53,000-$100,000	$105,000-$193,000
Lifetime AFDC/TANF Reduction	$1,250	$2,041
Lifetime Food Stamp Reduction	$1,609	$2,613
Increased Years of Schooling	0.2 (11.8-12.0)	0.3 (11.8-12.1)

The costs and net benefits to society: Eliminating poverty early in childhood is estimated to increase adult productivity (earnings gains) between $53,000 and $100,000. That total does not account for those benefits for which it is hard to assign a dollar value, such as the child's greater enjoyment of growing up in a non-poor household, or the psychological value of being a more productive member of the labor force. From a taxpayer perspective, such a program would results in savings of about $2,800 per poor child as a result of reductions in welfare payments and food stamps. It would also result in between $10,700 and $20,000 in increased tax revenue from the higher earnings.

Poor children are at increased risk of life failure due to a variety of factors: having young and single mothers; living in unsafe housing and neighborhoods; lacking access to physical and mental health care; attending poor schools; being influenced by negative peer effects; and experiencing social isolation.

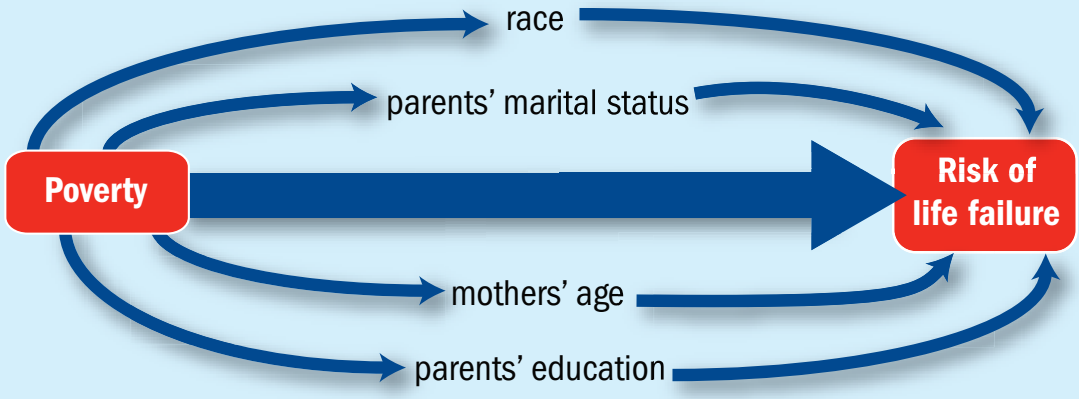
When viewed at age 25, the point the study considered to be the beginning of adulthood, the costs of this change sum to nearly $70,000 per family on average. So, on average, the cost of raising children out of poverty pays for itself by the time the poor children have reached middle age.[1]

When family income is raised to 150% of the poverty line, which many believe is closer to what is needed to provide for the "basics," the return is even greater. Spending $7,066 per poor family, for a total of $113,000 over the same seven years, results in lifetime earnings increases of between $105,000 and $193,000. It also produces relatively larger decreases in reliance on food stamps and AFDC/TANF and an additional small increase in years of schooling completed.

Methodology: How do we infer a causal connection?
This hypothetical policy experiment compares consequences in adulthood for two otherwise identical groups of young children, one poor and the other with enough extra income prior to school entry to raise family income to the poverty line. The researchers used data from the Panel Study of Income Dynamics (PSID), which has followed and collected a range of information from a nationally representative group of families and their children for nearly 40 years.

In order to isolate the effects of poverty itself, they include controls for differences in other family circumstances at birth and income later in childhood, which likely play a role in a child's life outcome. Among these factors correlated with poverty that

Methodology: Factors Controlled For in Research



increase poor children's risks of failure are: race, parents' marital status, mothers' age, number of siblings, and parents' education.

As detailed above, $4,326 represents the discounted annual sum that would be required to lift the average poor family out of poverty for the seven years, with the total amount, reverse discounted to age 25, coming to roughly $70,000. Raising family income to 150% of poverty costs $7,706 in each of the seven years, or $113,000 total per poor family.

The bottom line: This study suggests that eliminating, or at least reducing, child poverty in the United States could provide benefits to the children and to taxpayers that, on average, equal or exceed the costs. Raising family income above poverty, it appears, provides even greater returns, possibly close to double the cost of the program.

The Partnership for America's Economic Success was created by a group of business leaders, economists, advocates, and a dozen funders, in order to document the economic impacts to the nation of proven investments in children from before birth and to age five. The Partnership is managed by and housed at The Pew Charitable Trusts.

This report is based on a paper co-authored by Greg Duncan of Northwestern University, Ariel Kalil of the University of Chicago, and Kathleen M. Ziol-Guest of Harvard University. The authors gratefully acknowledge the peer reviews and advice of Rucker Johnson, Michael Foster, and Richard Wertheimer. The complete report and citations are available at www.PartnershipforSuccess.org. The views expressed are those of the authors, and not necessarily those of the reviewers, Northwestern University, the University of Chicago, Harvard University, or The Pew Charitable Trusts.

1 Note that child participant and taxpayer benefits cannot be combined, as that would result in double-counting; money paid in income taxes constitutes a reduction in income, and the same is true of reductions in welfare benefits.

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