Estimating the costs of child poverty

Round-up
Reviewing the evidence

October 2008

The moral case for eradicating child poverty rests on the immense human cost of allowing children to grow up suffering physical and psychological deprivations and unable to participate fully in society. But child poverty is also costly to everyone in Britain, not just those who experience it directly. What are the costs to the whole of society of allowing child poverty to continue?

This paper:

- **includes the findings from three specially-commissioned reports and estimates some of the tangible costs resulting from child poverty.**

Key points

- Child poverty's consequences are wide-ranging and long-lasting. Children from low-income families are less likely to do well in school, and more likely to suffer ill-health and to face pressures in their lives that help to explain an association with anti-social behaviours and criminality.

- These consequences cost society: in the money that government spends in trying to counter the effects of child poverty, and in the economic costs of children failing to reach their potential.

- These costs cannot be calculated precisely, but the following are cautious estimates:
  - Public spending to deal with the fallout of child poverty is about £12 billion a year, about 60 per cent of which goes on personal social services, school education and police and criminal justice.
  - The annual cost of below-average employment rates and earnings levels among adults who grew up in poverty is about £13 billion, of which £5 billion represents extra benefit payments and lower tax revenues; the remaining £8 billion is lost earnings to individuals, affecting gross domestic product (GDP).

- The conclusion is that child poverty costs the country at least £25 billion a year, including £17 billion that could accrue to the Exchequer if child poverty were eradicated. Moving all families above the poverty line would not instantly produce this sum. But in the long term, huge amounts would be saved from not having to pick up the pieces of child poverty and associated social ills.

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Introduction

The full human cost of child poverty is inestimable. Nobody can measure adequately the cost in physical or emotional suffering of a toddler living in a damp or overcrowded home, or of a child growing up in a deprived community where hope of a better life is constantly crushed. Political commitments to ending child poverty are based on the idea that a rich economy in the twenty-first century should be able to ensure that every child grows up with opportunities and is able to participate in society.

Following up such political commitments requires a big effort by a wide range of people and organisations in producing the resources, opportunities and social attitudes needed to make child poverty a thing of the past. So it is worth highlighting the costs that child poverty brings, not just to those directly affected, but to everyone. These costs are not always easily measurable, and include damage to how society functions, in far-reaching and complex ways. But some very tangible penalties are paid for allowing child poverty to persist. They include the creation of social problems that necessitate extra social spending, and the fallout from adults being unable to meet their full potential as a result of having grown up in poverty – including reduced productive capacity in the economy, extra benefit payments and reduced tax revenues.

This *Round-up* brings together three strands of evidence on the impact and costs of child poverty. First, it draws on a review of research evidence to describe some of the consequences of child poverty that are likely to have repercussions for society. It assesses the extent to which social costs can be attributed to poverty itself, and the degree to which these costs might be expected to diminish as a result of reductions in poverty, alongside other social improvements.

Secondly, it estimates the effects of the consequences of child poverty on social spending – a cost to taxpayers. This estimate is based on the observation of different levels of social spending in small areas with different levels of child poverty.

Thirdly, it presents an estimate of the knock-on costs to the economy of the lower productive capacity and earnings of adults who faced poverty as children. This creates both a cost to the Exchequer through foregone tax revenues and extra spending on benefits and tax credits, and also a wider economic cost in terms of reduced economic activity associated with reduced production and private earnings.

The paper assembles these estimates to suggest a total known cost of continued child poverty to taxpayers and the economy. This is not a comprehensive estimate of the cost of child poverty, but a best estimation of some of the tangible fallout from this phenomenon.

The consequences of child poverty

A literature review for the Joseph Rowntree Foundation (Griggs and Walker, 2008) concludes that 'the consequences of child poverty are serious, far-reaching and multi-faceted'. It points to a wide range of evidence demonstrating the interaction of low income, poor housing, disadvantaged neighbourhoods and parental stress in disadvantaging children in their immediate experiences and future lives.

An important finding of this review is that the impact of low income is significant in itself, as well as interacting with other aspects of childhood disadvantage. This should be borne in mind when considering the potential impact of raising family incomes above the poverty line. Although this would contribute to reducing the costs associated with child poverty, the most effective strategies would need to combine action on income with other policies to reduce the disadvantages of growing up in deprived neighbourhoods and in families facing a range of difficulties.

Definitions

- The central definition of child poverty in this *Round-up* is that of living in a family on a relatively low income. Researchers use different definitions, but as far as possible the evidence cited here relates to: (a) an income-based measure and (b) poverty definitions that classify a comparable proportion of children in poverty – about one in four – as the main child poverty measure used by the Government in measuring progress towards its targets. While it is not possible to use a precise common threshold, the broad objective is to look at costs resulting from the low income of a relatively broad section of the population, rather than just extreme poverty affecting the bottom 5 or 10 per cent.

- The 'cost of poverty' is not taken to include the benefits and tax credits paid to families on low incomes at the time when child poverty occurs. These income transfers are treated as part of the cost of *reducing* child poverty; they can be offset against the costs of allowing it to continue, which are the subject of this paper. This is a simplification of reality: it is also possible to envisage investments in items other than income transfers (e.g. spending on education) that contribute to reducing child poverty in the long term. However, since income transfers are so directly tied up with the solution, they are not seen here as part of the cost, except in the case of benefits paid to adults disadvantaged by having lived in poverty as children. These represent part of the consequence of allowing child poverty to continue, rather than helping to prevent it from occurring in the first place.

The following more specific observations on the impact of poverty are drawn from research evidence (see references in Griggs and Walker, 2008). They focus on outcomes likely to impact on society and taxpayers, not just individuals in poverty. For this reason they emphasise long-term damage which is likely to influence how individuals function in society, rather than measuring direct effects on child well-being.

Damage to children's physical health

Research comparing outcomes of children from families in poverty with those not in poverty shows clear-cut health differences at each stage of the life cycle (Hirsch and Spencer, 2008). The health penalties of poverty start before birth. Maternal characteristics such as diet and stress levels during pregnancy help to explain why children born into poverty have a much higher chance of a low birthweight, which is associated with extra health risks throughout life. Children in low-income families are also less likely to be breastfed, and more likely to contract various diseases such as asthma, report longstanding illness, be obese and have certain disabilities such as cerebral palsy. Poverty can contribute in various ways to different health conditions, including the knock-on effects of poor maternal health and diet, the diet of children living in poverty, and poor housing, which can influence the contraction of respiratory diseases, for example.

In considering the cost to society of these higher health risks, one question is how much impact this has on health expenditure. To some extent, the poorer health of children in poverty is offset by low-income families' lower usage of health services, relative to their health status. But some phenomena with a much higher incidence in low-income families, such as accident-related hospital admissions, incur immediate extra costs. Moreover, conditions that do not create large immediate costs can be costly in the longer term. For example, while children aged five in deprived areas have significantly more tooth decay but not more fillings than average (implying under-use of dental services), by age 15 they have 50 per cent more fillings than those in non-deprived areas, suggesting that the need for treatment has caught up with them.

The association between factors such as low birthweight and expensive-to-treat conditions in adulthood (such as diabetes and heart disease) illustrates the long period over which the NHS needs to meet extra costs resulting from poverty and social deprivation. A particular current concern is the rise in childhood obesity, with low-income children more at risk, which creates large long-term costs because of associated illnesses in adulthood.

Interpreting evidence on the effects of child poverty

Many harmful phenomena are associated with child poverty. This association, at its simplest, means that children in families with low incomes are statistically more likely to do worse at school, have poor health, and so on. In themselves, such associations show neither that poverty causes these ill effects, nor that if children were lifted out of poverty the damage would disappear. However, some of the evidence suggests that a significant part of the effect is attributable to income poverty, and that raising incomes would reduce the damage. In particular:

- Evidence tracking children who have grown up in poverty shows that they face later disadvantages, even after controlling for other characteristics. This is especially the case for long-term health and educational outcomes; for example, some of the lower educational outcomes experienced by children in poverty can be attributed to the low average educational levels of their parents. However, about two-thirds of the observed relationship between poverty and poor educational outcomes remains, even after taking account of differences in parents' backgrounds, including educational level (see Blanden *et al*., 2008, for such calculations).

- Strings of evidence point to the strong likelihood of causal links. For example, pregnant women living in poverty are more likely to suffer from poor diet and stress, and medical research shows that such conditions in pregnancy can damage their baby's future health during childhood and throughout life. Such explanations of links between child poverty and poor health outcomes, combined with the observation of strong links in practice, powerfully suggest causal links without directly proving them.

- Even where it is impossible to disentangle the effects of income poverty from other influences in a child's life, the evidence suggests that raising income is a necessary part of a package to improve outcomes. For example, better-off children are considerably advantaged educationally by taking part in out-of-school activities. The evidence suggests that not just income constraints, but also attitudes and cultural norms prevent worse-off children from participating (Wikeley *et al*., 2007). However, addressing these norms without also addressing the financial constraints is likely to prove ineffective.

Such long-term damage to health resulting from child poverty creates not just treatment costs, but also economic costs associated with lower capacity to work – whether caused by time off through sickness or longer-term incapacity among working-age adults. Caring costs are also associated with long-term health damage. Given that some estimates put the true cost of caring at tens of billions of pounds (see, for example, Carers UK, 2007), the payback from this source of reducing long-term ill-health could be huge.

Psychological and emotional impact

At least as important as the impact on physical health is the damage that poverty does to psychological and emotional well-being. Children in poverty are substantially more likely to have mental illnesses, with family stress and adverse living conditions playing contributing roles. These difficulties appear to be heightened by lengthy periods living in poverty, and in some cases by stresses associated with neighbourhood. There are also associations between poverty and low IQ, although evidence on the genetic component in this is mixed.

The costs to society of mental illness, emotional difficulties and slower cognitive development are wide-ranging (see, for example, Meltzer *et al.*, 2000). Socio-emotional problems can contribute to anti-social behaviour or self-destructive addictions, with large implications for society. Slow learning development can contribute to worse labour-market outcomes. This aspect of childhood health therefore has strong links with the educational and behavioural themes discussed below.

Educational outcomes

A wide range of evidence shows that children in poverty do worse at school, and that this damages their future opportunities. Key features of research findings in this area are that:

- childhood educational disadvantage starts early, with measured cognitive ability already affected by the age of three, when children in poverty are estimated to be six months behind the norm in school readiness;

- the cumulative effect of poverty grows throughout schooling, with the gap continuing to widen – even children from low-income families who start out well have reduced chances of progressing (Hirsch, 2007);

- there is a continuous gradient of average achievement, so there are not just differences between people from higher and lower social classes, but further penalties from being on a very low income;

- a number of factors combine to contribute to lower achievement, including family stress, the level of educational support offered in the home and the level of participation in out-of-school activities (which can help to build children's confidence as learners); low income contributes to these factors, as well as interacting with other disadvantages.

A child who goes to school with many home disadvantages needs extra support in order to be given the same opportunities as an average child; such support generally requires extra resources. In principle, this creates a cost to taxpayers. This cost arises in reality, given that schools in more deprived areas have on average more spent per pupil. However, as this is not enough to equalise life chances, it shows that only part of the cost paid by society for child poverty with respect to education comes from spending at this stage.

Perhaps a bigger cost arises from the fallout from allowing so many young people growing up in poverty to fail to realise their potential. This leads to much lower earnings prospects, with implications for the nation's overall economic output (see below), and in some cases to the fallout from disaffection among young people who have 'failed'. In particular, the phenomenon of 'NEETs' (young people not in education, employment or training) creates costs in terms of support in dealing with issues such as homelessness, addictions and potentially the costs of anti-social behaviour and crime.

Lower future employment prospects

Those who grow up in low-income households are more likely to be unemployed, to work in low or unskilled jobs, and to be poorly paid in adult life. This effect persists after controlling for educational achievement, and has grown over time. The research suggests that a critical factor is the difficulty in making the transition into stable work. Past generations were able to pursue clearer, more well-trodden routes into low-skilled and skilled-manual employment, even if they held limited educational qualifications. But many of the jobs they went into no longer exist, and many of today's jobs require a range of 'soft skills' that children from deprived families often lack (see, for example, Margo and Dixon, 2006).

Crime and negative behaviours

Poverty itself does not cause children and young people to commit crimes. Yet there are strong associations between social and economic disadvantage and rates of offending and anti-social behaviours. Another telling association is the strong link between poverty and suicide risk. This suggests that negative behaviours shown by some children in poverty are linked to deep-seated damage to their lives. Those growing up in deprived areas also have a much greater chance of being a victim of crime, combined with a strong association between having experienced crime as a victim and becoming an offender (see, for example, Aber *et al.,* 1997).

The evidence suggests that difficulties such as poor family functioning and low self-esteem, which can be contributing factors to anti-social activities, are in turn fed by childhood poverty. These mediating factors help to explain why young people who grow up in poverty are more likely than average to become involved in anti-social behaviour and crime. However, this conclusion needs to be used with care, since it does not point to a clear, direct causal link: it cannot be said that children commit crimes simply because they are living in poverty.

The large costs to society of increased anti-social behaviour and criminality are self-evident. When people get involved in such activity at a young age, there are immediate costs through the youth justice system and also longer-term costs through patterns of repeated offending and failure to become productive earners and taxpayers.

Family relationships

The research suggests that managing on a low income makes good family functioning more difficult and can affect the quality of parent–child relationships. Whether or not poverty itself causes stress, it can affect parents' ability to manage other stressful events and difficulties. While there is no clear-cut evidence to show that parents in poverty are more likely to engage in practices such as physical violence against their children, a correlation has been identified between family income and children being removed from their parents' care (Barth *et al.*, 2006).

A concentration of children's social services resources on families on lower incomes represents an immediate cost to taxpayers. In the longer term, children face extensive penalties from growing up in families with negative relationships. They find it harder to form relationships themselves, and to build up networks and 'social capital'. Research has highlighted the importance of a stable home environment for children's development and mental well-being, with knock-on effects on mental health, learning, behavioural and ultimately employment outcomes. Another important outcome is the chance of becoming a lone parent, which is higher for those who have grown up in poverty.

Strength and well-being of communities

Child poverty can also have negative impacts on the resource represented by a community. For example, poverty can limit a family's ability to become integrated into the local community and form social networks. In addition, stigma associated with poverty can be detrimental to community relationships and can reinforce inequalities. This stigma can be exacerbated for those living in communities where outsiders associate high rates of deprivation with high rates of anti-social behaviour and crime.

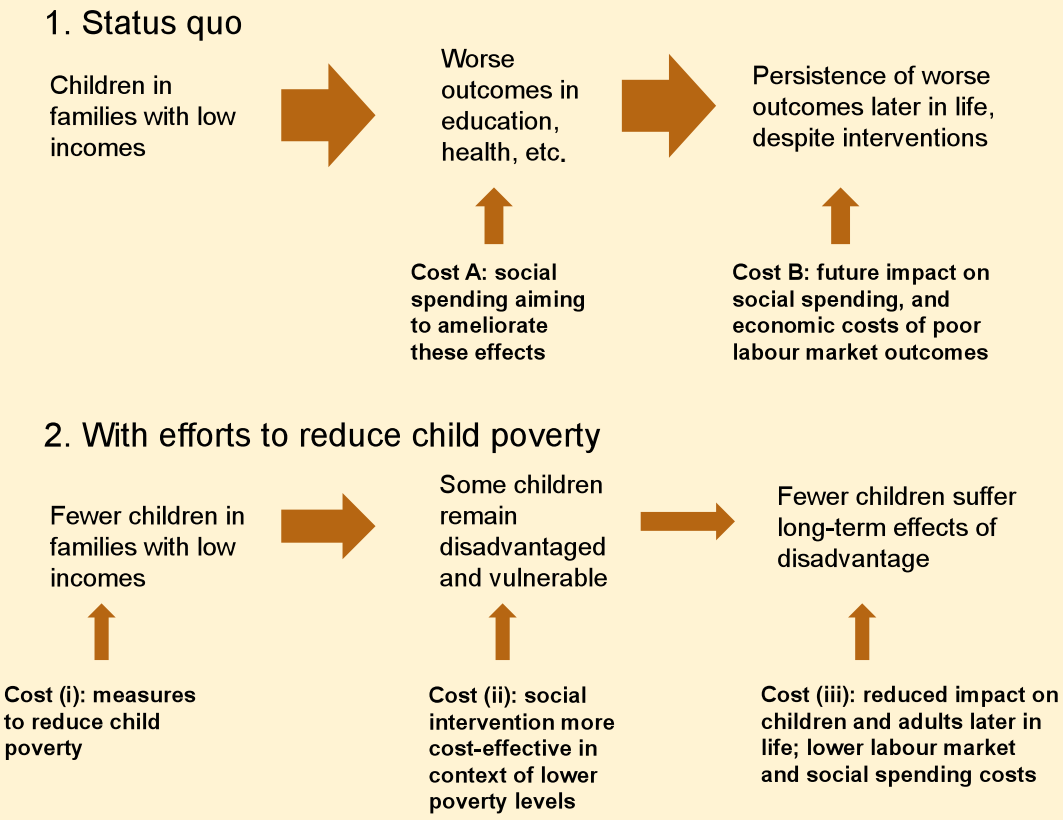
Interpreting consequences and costs

Much of the above evidence suggests that child poverty interacts with many other factors to produce negative consequences and costs. However, there is considerable complexity in identifying how consequences feed into costs. Understanding this process as well as possible is valuable for developing strategies to reduce poverty and its costs, alongside strategies to tackle related social ills.

Figure 1 illustrates one way of looking at the relationships between the costs and outcomes of child poverty. The top part of the diagram (the status quo) suggests that the negative consequences bring broadly two kinds of cost. One is the resources devoted to trying to ameliorate these consequences; the other is the longer-term costs of failure to ameliorate them fully. The latter can be regarded as the cost of having 'unmet need'.

For example, in education the first type of cost might include extra help for a child whose family poverty has made it harder to learn, while the second type might include future unemployment benefit resulting from that child growing up with low qualifications and finding it harder to get work.

Figure 1: Illustration of relationship between costs and outcomes



The second type of cost implies a degree of failure or limitation in the first, since if the education system were to succeed in levelling the playing field, subsequent disadvantage would not ensue. But this does not mean that extra spending on education for children in poverty, even combined with the most effective educational strategies, could ever fully compensate for their disadvantages educationally.

In reality, the evidence suggests that some consequences of poverty cannot be fully reversed, so the only way of avoiding any long-term costs is a preventative approach. The bottom part of the diagram indicates that upfront efforts to avoid poverty can reduce costs later on. It also accepts, however, that reducing poverty will not eliminate all social disadvantage, but it will make other social spending more cost-effective. This can be inferred from evidence that efforts to help, say, underachieving students at school, have enjoyed very limited success in raising outcomes for children impeded by family poverty. Children who start out doing badly at school have much better chance of being helped to higher achievement if they are not in poverty. So measures to cut poverty and to help underachieving students can together improve outcomes much more than either policy in isolation.

The following two-part calculation of actual costs associated with child poverty is based on the sequence suggested in Figure 1. It looks first at how services cost more where child poverty is higher, and secondly at costs associated with an important long-term consequence of child poverty – the effect on the labour market.

Estimating extra public service costs

Based on the above review of research evidence, higher social spending would be expected to result from higher child poverty, as services attempt to mitigate the damage that poverty does to the lives of children, families and communities. Social spending is indeed higher in areas with greater child poverty. But this does not mean that if all children were lifted out of poverty, spending in these areas would revert to the norm, since other features that characterise deprived areas may still be present. However, it is possible to estimate the effect of poverty on extra service costs by considering the association between the proportion of children in poverty in a local area and the cost of services in that area, controlling for other factors that cause spending to be high.

Bramley and Watkins (2008) have used the best data available on local spending variations to conduct such an exercise. This calculation involved the following steps for each of a number of publicly funded services that child poverty could make more expensive:

- Consider the average spending per child in each local area. The area used varied according to data availability; most commonly it was ward or postcode district.
- Consider the percentage of children in poverty in that area. The definition of poverty also varied according to data availability, but generally measured income deprivation affecting roughly 20–25 per cent of children, a comparable figure to the number in poverty on the Government's preferred definition (i.e. living in households with below 60 per cent median income before housing costs).
- Calculate the relationship between child poverty and spending: how much extra spending is associated with each percentage point difference in the proportion of children in an area classified as being in poverty.
- Modify the above calculation by controlling for other factors such as demography and socio-economic status which can also impact on spending and which would not change if poverty were reduced. NB: some other factors such as unemployment are so closely associated with poverty that they were treated as part of the same phenomenon.
- Based on the association between the proportion of children in poverty and the cost of the service, estimate what percentage of overall spending on the service is attributable to poverty.
- Apply this percentage to actual spend on the service to estimate the national cost of child poverty for the service.

Based on these calculations, Bramley and Watkins have estimated the cost of services attributable to child poverty, as shown in Table 1.

Table 1: Estimates of the cost of child poverty by service, England and UK, 2006/07 (£ million)

	Expenditure attributed to child poverty					
	a) amount				**b) as percentage of all spending in each service area**	
Service	**England £m**		**UK £m**			
	Low	*High*	*Low*	*High*	*Low*	*High*
Personal social services	2,414	2,414	2,849	2,849	71	71
Acute healthcare	1007	1007	1211	1211	2	2
Primary healthcare	730	730	859	859	5	5
School education	2,300	2,300	2,888	2,888	10	10
New social housing	527	1,166	748	1,654	37	98
Housing benefit and CTB*	0	3,757	0	4,420		32
Decent Homes programme	0	1,477	0	1,697		31
Police and criminal justice	1,060	2,502	1,240	2,927	5	12
Fire and rescue	724	724	926	926	33	42
Local environmental	338	675	395	790	11	22
Area-based programme	405	405	477	478	43	43
Total	**9,506**	**17,159**	**11,593**	**20,699**		

* Council Tax Benefit

For each service, Table 1 estimates how much spending can be associated with child poverty. This is then shown as a percentage share of all spending on that service (final two columns). In some cases, higher and lower estimates are given, to reflect particular uncertainties about the extent to which the extra costs should be associated with child poverty – most notably for housing and criminal justice services (see Bramley and Watkins, 2008 for full details).

The totals in Table 1 give a lower estimate of £11.6 billion and a higher estimate of £20.7 billion for the cost of child poverty to UK public expenditure. Adjusting to 2008/09 values (relative to GDP, based on a 6 per cent nominal growth rate over two years as shown in budget estimates of GDP between 2006 and 2008), these figures rise to £12.3 billion and £21.9 billion respectively. The biggest items in cash terms are personal social services, school education and the police/criminal justice, which account for well over half of the total cost (on the lower estimate).

Spending on social services stands out as comprising the greatest concentration of expenditure in deprived areas. Most of the spending on the service is associated with child poverty – i.e. the service is needed in large part because children growing up in deprived families face particular problems. This is clearly not the case for services such as education, which everybody needs. Here, expenditure is skewed to disadvantaged areas to a much smaller degree than for social services, as shown by the percentage figures in the final column of Table 1. But the high total level of spending on education means that the cost associated with child poverty is still large in absolute terms, as is the case with the police and criminal justice.

In the case of healthcare, the very weak skewing of resources towards areas where many children are in poverty to some extent confirms the hypothesis that poor health outcomes for people on low incomes are not fully reflected in extra use of healthcare. However, there is a measurement problem in separating out health spending on children and attributing it to child poverty. Should the lower or upper estimate be used? In the services where these estimates differ, it has proven hard to distinguish fully the effects of child poverty from those of other related phenomena. Bramley and Watkins suggest caution regarding how much of the cost to attribute to child poverty as such. This consideration suggest that it would be prudent to take the lower figure of £12 billion as the estimate of the cost of child poverty for service spending. This figure should be interpreted as a minimum it might be hoped to save in the long term as a result of abolishing child poverty in conjunction with addressing related social problems.

Knock-on costs of child poverty

In addition to the costs to services outlined above, child poverty brings important long-term economic costs to society. In particular, children who grow up in poverty are less likely than the average to work as adults, and can generally expect lower earnings if they do. The cost of this can be illustrated by estimating how much less national income is generated as a result of child poverty, how much this extra income would have contributed to tax revenues, and the extra cost of supporting people who are not working. This part of the calculation combines the future public cost of child poverty with the cost to the future income of the individuals affected. The latter can have knock-on effects for society in terms of overall productive potential and the spending power that those individuals would have contributed to the economy.

In a short modelling exercise, Blanden *et al.* (2008) have made a conservative estimate of these costs. The modelling started by using cohort studies to look at the association between being in poverty at age 16 with earnings and employment chances up to age 34. In estimating the 'poverty penalty' on earnings and employment rates, the modelling controlled for parental characteristics to get as close as possible to an effect caused by poverty itself rather than other aspects of an individual's background.

Having established that relationship, the analysis firstly considered how much would be gained in extra earnings and reduced benefit payments if all adults who grew up in poverty were instead to avoid poverty and thereby improve their employment and earning prospects. In making this calculation, it was not assumed that all those individuals would go into jobs on average earnings, since lifting children above the poverty line would not make them into 'average' individuals – their socio-economic background and family incomes would still be below average.

Rather, the analysis assumed that those in work who no longer had grown up in poverty would have their incomes raised to the average for people who had grown up in families above the poverty line but still on modest incomes. (Specifically, the average for people with between 60% and 120% median income.) Further, it assumed that the probability of employment for people who would otherwise have grown up in poverty would rise to the average employment rate for all groups, and that the 'extra' people employed as a result would earn at the 25th percentile of earnings. This last assumption was an arbitrary way of acknowledging that such individuals would be likely to be in lower-paying jobs: the 25th percentile puts them in the middle of the distribution of the lower-earning half of the population.

The authors of this research are, however, cautious about predicting that employment and earnings would grow by as much as this model assumes on this first estimate. The assumptions suggest that the consequence of adults not having the experience of child poverty would be to make them more like other adults who did not experience child poverty. However, insofar as this occurs because they become more employable, with higher skills, it is not clear that the demand for labour with these improved characteristics would expand fully to absorb these new workers. Looked at another way, there may be an extent to which the penalty paid for growing up in poverty is a greater chance of being at the 'bottom of the heap' in adulthood, but taking away this disadvantage may not necessarily change the shape of the heap, and therefore the overall earnings and tax revenues generated by the economy.

Blanden *et al*. deal with this issue by making cautious assumptions about the extent to which the labour market might adapt to the influx of a better-qualified cohort of workers, based on prior evidence related to the entry of immigrants. The result of this calculation is to suggest that halving the estimate described above produces a lower bound to the true estimated gains from ending child poverty; experience suggests that a figure close to this lower bound is a more plausible estimate than a midpoint. On this basis, the calculations produce the following cautious figures:

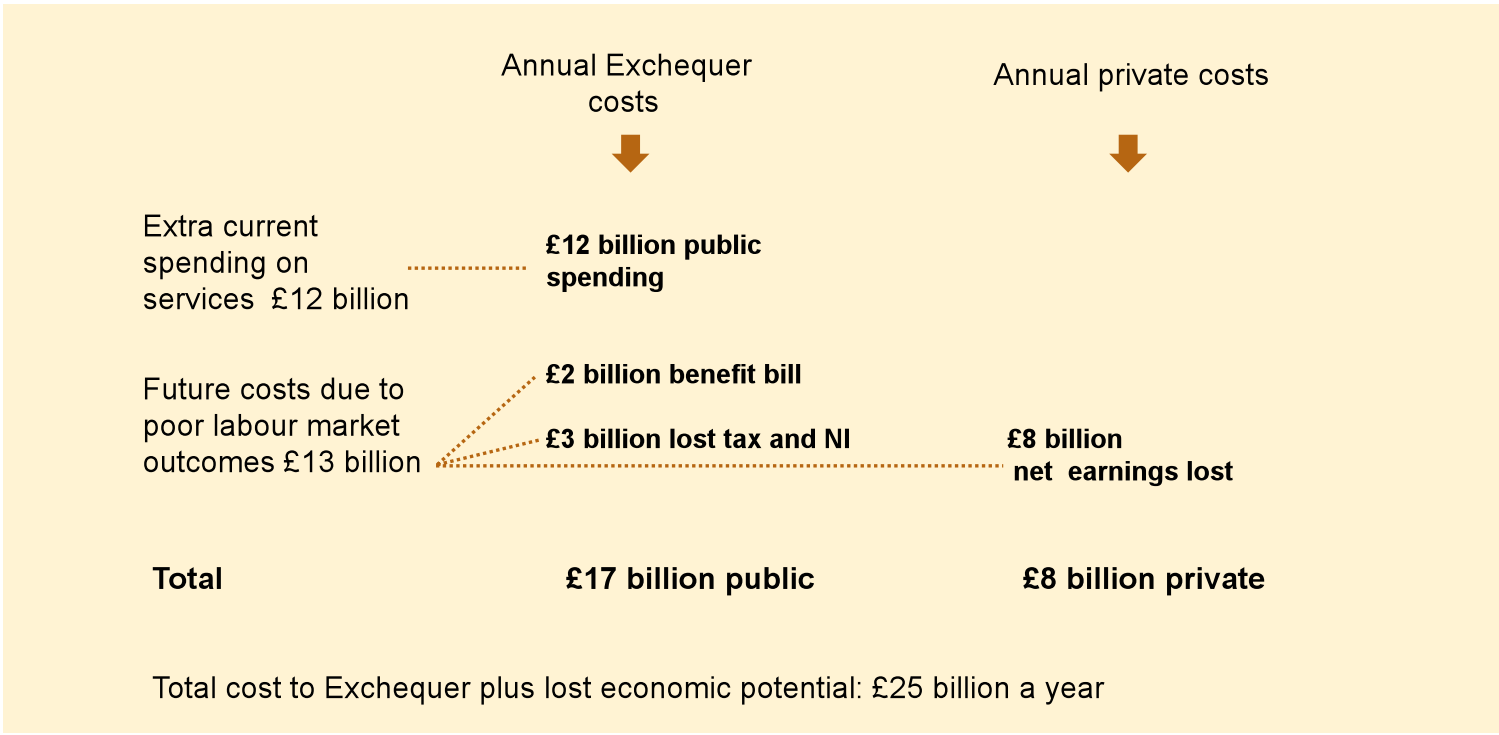
- The combined cost in higher benefit payments and lower gross earnings resulting from the effects of past child poverty amounts to at least **1 per cent of GDP**, or £13 billion (calculations using figures from Blanden *et al.*, adjusted from 2006 to 2008 GDP levels – estimated to be £1.28 trillion rather than £1.2 trillion in 2006).

- This figure comprises approximately **£2 billion** in benefit costs and **£11 billion** in foregone earnings.

- Of the earnings sacrifice, **£3 billion** would have been paid to the Exchequer in extra income tax and National Insurance (NI), and **£8 billion** would be kept by private individuals.

- Therefore, of the £13 billion that might be gained from ending child poverty, about **£8 billion** represents more money for those adults from families lifted out of poverty (and extra spending that could help to boost the economy), while **£5 billion** would be a gain to the Exchequer.

Figure 2: Adding up the costs



Conclusion

It is clear from the evidence presented above that child poverty brings large costs – not just in terms of the hardship experienced by those affected, but also in terms of public expenditure and future economic potential. The exact size of these costs is impossible to determine, but the estimates compiled here show that they are substantial. Figure 2 summarises the tangible costs estimated on the basis of the modelling carried out for the Joseph Rowntree Foundation by Bramley and Watkins and by Blanden *et al*. (2008)

Thus, the estimated total identifiable costs of child poverty are £25 billion a year (equivalent to about 2 per cent of GDP), of which £17 billion comprises savings to the Exchequer. In using these figures, the following points need to be borne in mind:

- The estimates take the lower end of the range of potential costs, and so should be taken as a cautious estimate in the sense of identifying the *minimum* cost in each case.

- While the estimates are conservative about the quantity of cost identified, they need to be treated with caution in terms of the extent to which child poverty itself has brought about these costs, and abolishing child poverty would bring about equivalent savings. The total figure encompasses a range of different levels of evidence. The labour-market estimates are based on research that can compare over time the trajectories of those who did and did not grow up in poverty and take account of the impact of other influences like parental education. This produces a relatively robust estimate of the consequences of child poverty, at least for individuals. The services cost estimates do not permit such comparisons over time. Therefore, there is greater uncertainty regarding the extent to which child poverty causes rather than is just associated with the higher costs.

- The fairest interpretation of these costs is to see them as the *potential* benefits to the Exchequer and the economy of abolishing child poverty. A narrow focus on raising family incomes above an arbitrary threshold may not achieve these benefits. But if action to address child poverty is part of a strategy to help families to improve their lives more generally, these are some of the savings that could result.

- All the evidence used for this paper emphasises the extent to which such benefits will accrue not through single short-term policies, but through a process that builds over time. Improving family outcomes from one generation to the next can create virtuous circles. For example, the effects of improved labour-market outcomes for a generation that grows up poverty-free would not just reduce benefits expenditure and improve tax revenues. It would also help to reduce the need for future social spending by producing fewer 'casualties' in the next generation of children.

Taken in this context, the £25 billion annual cost of child poverty can be seen as a clear justification for making strenuous efforts to follow through on the pledge of eradicating child poverty, even if it takes considerable resources to achieve this end. The Joseph Rowntree Foundation estimated in 2006 that it would take in the order of an extra £30 billion a year to eradicate child poverty by 2020 solely through government-ordered redistribution. Neither the JRF nor other commentators suggest, however, that this amount should be spent, since public redistribution should not be the only tool. Rather, solutions will require a combination of redistribution with cost-effective measures that help families to enhance their private incomes, making the total cost to the Treasury of eradication likely to be far less than £30 billion.

The identification here of a potential £17 billion a year in public savings therefore suggests that in the long term a policy combining redistribution with the promoting of opportunities could largely pay for itself. Put another way, the large amounts presently wasted on paying for the fallout from child poverty could be more productively employed in preventing it from occurring in the first place. This would bring a double benefit – for the families whose quality of life would be improved and for society, which would no longer have to pay to pick up the pieces.

About this paper

This *Round-up* is based on three reports commissioned by the Joseph Rowntree Foundation, examining the consequences of child poverty and estimating the costs that result: Blanden *et al*., Bramley and Watkins, and Griggs and Walker (see below).

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