

The cost of child poverty in 2021

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Introduction

This paper updates an estimate of the cost of child poverty to society, originally carried out in 2008¹ and subsequently updated in 2013². It gives a broad estimate illustrating the huge magnitude of the economic costs of child poverty that are felt across society and not just by those experiencing poverty. The estimate is based on two underlying observations. First, that children who grow up in poverty suffer effects that mean that as adults they will earn less, pay less tax and are more likely to require public support than the rest of the population. Secondly, public service spending is substantially higher in local areas where child poverty is high, because children growing up in poverty require a range of compensatory measures as a result of the disadvantages they face – ranging from more social services interventions to greater NHS expenditures to tackle ill health. The impacts of these effects were studied closely for the 2008 report, looking at long-term outcomes of growing up in poverty and at detailed local expenditure data. This brief update does not revisit those relationships, but calculates how much the total cost of child poverty is likely to have risen due to increases in earnings, in public expenditure levels and importantly in the level of child poverty itself.

The full human cost of child poverty is impossible to estimate. Nobody can measure adequately the cost in physical or emotional suffering of growing up in a damp or overcrowded home, of having a parent who relies on charity to put food on the table or of going to school in shabby second hand clothes. But alongside the human cost, research has shown that child poverty has a huge financial cost to the public purse and to the economy. The 2008 research, commissioned by the Joseph Rowntree Foundation, estimated that child poverty cost the country £25 billion a year, and by 2013 this had increased to nearly £30 billion, according to the update commissioned by the Child Poverty Action Group. About half this cost stemmed from the fact that adults have lower productivity and a higher risk of unemployment if they suffer the disadvantages associated with growing up in poverty. The other half was the additional public services spending associated with high levels of child poverty.

Like the previous estimates, this update does not provide a precise calculation but rather an indicative figure: the original work used the principle of making a 'cautious estimate', so that where there is uncertainty we use a figure at the lower end of the cost range. Thus, the estimate represents a minimum of what child poverty is likely to cost the country, rather than a speculative figure of what it might cost in a worst-case scenario.

¹ Donald Hirsch (2008) *Estimating the costs of child poverty*, York: Joseph Rowntree Foundation. This report drew in particular on two papers: Blanden, J., Hansen, K. and Machin, S. (2008) and Bramley, G. and Watkins, D. (2008) *The public service costs of child poverty*. York: JRF.

² Donald Hirsch (2013) *An estimate of the cost of child poverty in 2013*, London, Child Poverty Action Group.

Trends and their effect on the cost of child poverty

The cost estimate of child poverty is influenced by four key variables: the level of child poverty itself; levels of earnings and benefits; general levels of public spending; and specific policies which direct public spending towards children in low income families. These are quantities that we know will cause the cost of child poverty to change. Other factors whose effect we cannot presently measure are also likely to have an impact. Most importantly, the pandemic is influencing the experience of child poverty. The cost of childhood disadvantage is bound to be greater in lockdowns when families have had to depend on their own resources as part of learning, including appropriate computer equipment and space in the home, and are unlikely to be able to afford extra resources such as study guides and tutoring. The evidence shows clearly that educational inequalities have increased during this period³, and the long-term consequences of this are still unknown. Since we are unable yet to take these into account, we can say even more confidently than before that our figures represent a *minimum* estimate of the cost of child poverty, and that the true figure may well be significantly higher.

The following sections look in turn at the effect of changes in each of the factors that feed into our cost of child poverty estimate.

The level of child poverty

The number of children living in poverty clearly influences its overall cost. In particular, if more children grow up in poverty, more will suffer disadvantages of its scarring effect throughout their lives, and there is likely to be a proportional increase in the effects on their own earnings, on the taxes that they pay and on the risk that they will need to be supported through periods of unemployment.

The number of children in poverty is just over 10% (10.3%) higher than in 2008 – with the number in families with below 60% median income after housing costs having risen by 400,000 to above 4 million (and also a 10% increase in child poverty before housing costs). After an initial fall between 2008 and 2010, there was a steady increase from 2012/13 onwards, when austerity started to have an impact on the figures. Over this period, the increase has been 700,000. The next few years remain highly uncertain, but there is a strong risk of a continued increase, given that benefit cuts continue to roll out (for example through the two-child limit on some entitlements, applying only to children born after 2017), and families' earnings prospects could be badly hit in the aftermath of the pandemic, especially after the ending of the furlough scheme. Moreover, despite the fact that the benefit freeze ended in 2020, benefits are still only being uprated in line with prices at best, meaning that if household incomes grow in real terms, those at the bottom will once again fall behind, with relative poverty rising.

In the following calculations, the 10.3% increase in child poverty is assumed to have a proportionate impact on its knock-on costs.

³ Blundell, R. et al., (2021) Inequalities in education, skills, and incomes in the UK: The implications of the COVID-19 pandemic. London: Institute for Fiscal Studies.

Average earnings levels and the effect on lost earnings and taxes

The level of average earnings influences the cost of child poverty, via the calculation of how much income is foregone to individuals and to the Treasury, as a result of the effect of child poverty on the subsequent earnings prospects of those who have experienced it.

Specifically, the loss of revenues both to wage-earners and to HMRC caused by reduced earnings are likely to rise in proportion to the general increase in earnings.

Average earnings have risen significantly, from £466 a week in 2013 to £576 in 2021⁴ - an increase of 24%. We could therefore expect the cost of child poverty associated with lost earnings - both the portion that would have been retained by individuals and the amount lost to the Treasury in income tax - to increase in proportion for each child who grows up in poverty. But since 10.3% more children are having this experience, the 24% increase in cost per head is compounded by a 10.3% increase in numbers affected, producing a 37% increase in overall costs associated with lost earnings.

On this basis, we estimate that:

The cost in future lost earnings retained by individuals increased from £8.5bn in 2013 to £11.6bn in 2021.

The cost to the Treasury in lost income tax from those individuals increased from £3.5bn to £4.8bn.

Benefit and unemployment levels, and the effect on future unemployment benefit costs

Another knock-on cost of child poverty is that people who have experienced it are more likely to spend time out of work, incurring a Treasury cost in terms of paying unemployment benefits. This extra bill is likely to be influenced both by the level of benefits and by the overall risk of unemployment.

Most benefit levels were frozen in cash terms between 2016 and 2020, but basic benefits are still slightly higher now than they were in 2013. Specifically, the basic rate for an adult who is unemployed has risen from £71.70 to £74.70 since that time, an increase of 4%. However, the unemployment rate has fallen, from around 7% to around 5%, and when this is taken into account, the effect on future unemployment basis for each child growing up in poverty falls by 26%. (This assumes that the additional risk of poverty to someone with a disadvantaged background is lower in a world where unemployment generally is lower.) With 10.3% more children living in poverty, and the future benefits cost attributed to each of them being 26% lower than in 2013, the overall estimate of the cost of child poverty in future benefit payments is 10.3% higher than if it had been reduced by 26%, i.e., 18% below its 2013 level. On this basis we estimate that:

The overall cost to the Treasury in additional future unemployment benefits fell from £2.4 billion per year in 2013 to £2.0 billion in 2021.

⁴ ONS Average Weekly Earnings series. For further details of data sources and calculations, see Appendix.

Spending on general public services

The calculation of additional spending on services due to child poverty, originally made in 2008, was based on observation of spending patterns within local areas⁵. To the extent that spending was higher in areas with additional levels of child poverty, that extra spending was taken to represent the additional costs that high poverty levels bring. This was expressed as a given percentage of spending on particular government functions being attributable to child poverty. Thus, as spending on any one function rises or falls, the actual amounts spent on alleviating the effects of child poverty can be assumed to change proportionately. After the period of austerity in the 2010s, public spending levels have increased more significantly in the past two years, and this also means that the amount attributable to child poverty is deemed to be higher. There is a perverse aspect to this calculation: the more that government allocates to services that help ameliorate the effect of child poverty, the greater the cost of child poverty is said to be. In practice, what this means is that the cost becomes more visible, because government is allocating more money to help the people whom poverty has harmed. The alternative of not spending this money will mean that there is more unmet need, so the cost will be felt more in terms of human hardship and less in terms of Treasury spending.

In 2021, spending is substantially higher in cash terms than in 2013 across the range of services whose spending has shown to be associated with the level of child poverty. For example, spending on both children's social services and healthcare has grown 43%, while spending on school education is 16% higher. These increases are applied to the cost broken down by each service (see Appendix), to increase the estimate of the total cost of public service spending associated with children poverty. On this basis:

The general public service cost attributable to child poverty grew from £12.7 billion to £16.3 billion between 2013 and 2021.

Most of the £16 billion now accounted for by this service cost comes from school education and children's social services (around £4 billion each) and healthcare (around £3 billion).

Spending on services targeted at children in poverty

An additional public service cost of child poverty arises from two measures where spending is specifically targeted at children from families with low incomes: the Pupil Premium, which gives schools extra money for children on free school meals, and the Early Years Entitlement for two year olds, which gives children from low income families up to 15 hours a week of free childcare. These two measures are counted as additional to the impact of child poverty on general spending, since they were introduced after the initial analysis of how much overall spending is higher in areas with higher levels of child poverty, and are therefore likely to have increased the magnitude of that effect.

Since 2013, spending on the Pupil Premium has risen from £1.9 billion to £2.5 billion a year, while spending on the Early Years Entitlement for two year olds has fallen from £0.8 billion to £0.5 billion. On this basis:

⁵ This work was carried out by a team at Herriot Watt University. See Bramley, G. and Watkins, D. (2008) The public service costs of child poverty. York: JRF.

Targeted spending on services for children in poverty has risen from £2.7 billion in 2013 to £3.0 billion in 2021.

Total costs attributed to child poverty

Adding up the above calculations, we estimate the cost of child poverty to have risen as follows:

Estimated cost of child poverty, £ billion

	2013	2021
Reduction in privately retained future earnings	8.5	11.6
Future tax receipts lost to government	3.5	4.8
Additional future benefits bill	2.4	2.0
Additional general public spending	12.7	16.3
Targeted public spending	2.7	3.0
Total	29.8	37.7

Thus, child poverty is now costing the country an estimated **£38 billion a year**, of which nearly £12 billion represents a reduction in the future prosperity of those affected as a result of earning less, nearly £5 billion is the loss to the Treasury in the tax they will pay, £2 billion is the estimate of how much more it will cost to support them during periods of unemployment and £19 billion is the current cost in public expenditure on services addressing the consequences of child poverty. The alternative for society to bearing these costs of the fallout of child poverty is to invest sufficient resources to prevent children from growing up in poverty in the first place. The very high costs identified here demonstrate that even a large investment in an effective anti-child poverty strategy is likely to pay for itself many times over.

Appendix – the calculations

1 The level of child poverty

Millions of children in poverty	Before Housing Costs	After Housing Costs
2008/09	2.9	3.9
2020/21	3.2	4.3
% increase	10.3%	10.3%

Source: Households Below Average Income 1994/95 to 2019/20, Table 4.3tr

Effect on calculation: Increases knock-on costs proportionately, so raises calculation related to benefits and earnings by 10.3%.

(NB: no such increase was applied to the interim 2013 figures because child poverty rate at similar level to 2008).

2 Earnings levels

	2013	2021	Increase
Average weekly earnings	£466	£576	24%

Source, Office for National Statistics, Average Weekly Earnings series

Effect on calculation: proportionate increase in earnings and tax receipts associated with reduced earnings ability as a result of growing up in poverty.

Calculation: cost in lost earnings and tax receipts (£bn)

	2013	2021 (multiplying by the earnings increase and by the increase in child poverty)
Private earnings lost	8.5	11.6
Tax receipts lost to government	3.5	4.8

3 Benefits levels

	2013	2021	% change
Percentage out of work	7%	5%	-29%
Adult benefit rate	£71.70	£74.70	4%
Combined effect			-26%

Source, Office for National Statistics, Average Weekly Earnings series

Effect on calculation: proportionate increase in earnings and tax receipts associated with reduced earnings ability as a result of growing up in poverty.

Calculation: cost in additional benefits (£bn)

2013	2021 (multiplying the lower cost per child by the greater number of children in poverty)
2.4	2.0

4 Costs arising from general public service expenditure

Service	Contribution to cost of child poverty, 2013/14, £billion	Cash spending* increase 2013/14 to 2020/21, %	Estimated contribution to cost of child poverty, 2020/21, £billion
Children's social services	2.75	43.2%	3.94
School education	3.62	16.7%	4.23
Police and criminal justice	1.26	30.3%	1.64
Healthcare	2.34	43.1%	3.35
Fire and rescue	0.91	4.7%	0.95
Remainder	1.78	25.3%	2.23
Total	12.65		16.34

Source: HM Treasury PESA tables, 2013/14 and 2020/21, table 5.2

* Because of inflation, these figures do not show the real-terms trend in public spending, but rather help us adjust the estimated cost of child poverty in cash terms

Notes on calculations: The 'remainder' items have been increased by the overall increase in expenditure on public services (excluding economic affairs). In 2013, these items included primary care, which for this calculation has been reclassified as part of the healthcare total.

5 Additional cost of service expenditure targeted at children in poverty, £bn

	2013	2021
Pupil Premium	1.9	2.5
Early years entitlement for two year olds	0.8	0.5
Total	2.7	3.0

Sources: <https://schoolsweek.co.uk/schools-told-how-to-spend-pupil-premium-grants/>
<https://ifs.org.uk/uploads/BN258-Early-education-and-childcare-spending.pdf>

Notes

This update was requested and funded by the office of Wes Streeting, M.P. It presents calculations on an identical basis to those carried out in 2008 and 2013, referred to above. In 2016, a separate calculation, using similar methods and principles but a different set of data, was used to estimate the total cost of UK poverty across all age groups:

Bramley, G., Hirsch, D., Littlewood, M. and Watkins, D. (2016) *Counting the cost of UK poverty*. York: Joseph Rowntree Foundation.