



THE COST OF CHILD POVERTY IN 2023

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Key points

- The cost of child poverty extends beyond the physical and emotional hardship felt by children growing up in low-income families.
- This report estimates the wider societal costs of child poverty. This figure is comprised of costs to the economy due to the greater risk of unemployment and lower earnings potential of adults who grew up in poverty, and of the additional amount spent on public services to help address the damage done to children growing up in poverty.
- In 2008, the total cost was estimated to be at least £25 billion a year. In 2023, it has risen to over £39 billion a year, due to both higher prices and higher rates of child poverty. These are cautious estimates, and the true cost could be substantially higher.
- Forecasts of a continued rise in child poverty mean that the cost is set to increase to more than £40 billion in today's prices by 2027. These forecasts are based on previously announced benefit cuts continuing to roll out, so the increase is avoidable if policies are changed.
- More generally, this evidence shows that a large investment in reducing child poverty would bring similarly large gains to the economy, while also avoiding the damage to children who are harmed directly by poverty.



Introduction

This paper updates an estimate of the financial cost of child poverty to society, originally carried out in 2008¹ and subsequently updated in 2013² and 2021.³ 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.

This estimate comes in the context of unprecedented strains on families trying to cover rising costs with limited incomes, with child poverty heading towards record levels (see Box 1). The renewed upsurge in child poverty numbers causes both greater strain to the children and families affected, and an increase in the tangible financial costs to wider society.

Box 1: Trends in child poverty

Child poverty is rising at record rates when measured against a fixed threshold of low income (termed absolute poverty). The number of children in households with below 60 per cent of median 2010 income after housing costs, inflation-uprated, is forecast to have risen by nearly a quarter in just the three years ending in 2022/23. This means 700,000 more children living in families unable to achieve the living standard represented by the 2010 poverty line, because their buying power is falling as prices rise.⁴

Looking at longer-term trends, child poverty is conventionally measured against a relative income threshold, 60 per cent of median income in each year, and is an indicator of families' ability to get by and participate in the society in which they live. Figure 1 shows that substantial reductions in child poverty early in this century have now been reversed, as the child poverty rate heads for record levels.

From 1999/00 to 2004/05 there was a large reduction in relative child poverty, primarily due to large increases (above the rate of earnings growth) in the level of social security entitlements. For instance, over this period, a lone parent in part-time work with one child saw the cash value of their benefits increase by nearly 50 per cent.⁵ Then from 2004/05 to 2007/08, relative poverty rose as social security was only increased in line with inflation, despite there being strong economic growth.

From 2007/08 to 2010/11 there was a fall in child poverty, as the recession led to a reduction in median income. Then since 2010/11, child poverty has risen again, largely due to cuts to social security. This is a clear indication of what makes a difference to child poverty levels.

In the past three years, this further rise in relative poverty has been halted by the fall in median income and hence the poverty line – little comfort to those whose incomes fell in real terms.

¹ D Hirsch, *Estimating the costs of child poverty*, JRF, 2008. This report drew in particular on two papers: J Blanden, K Hansen and S Machin, *The GDP cost of the lost earning potential of adults who grew up in poverty*, JRF, 2008 and G Bramley, and D Watkins, *The public service costs of child poverty*, JRF, 2008.

² D Hirsch, *An estimate of the cost of child poverty in 2013*, CPAG, 2013

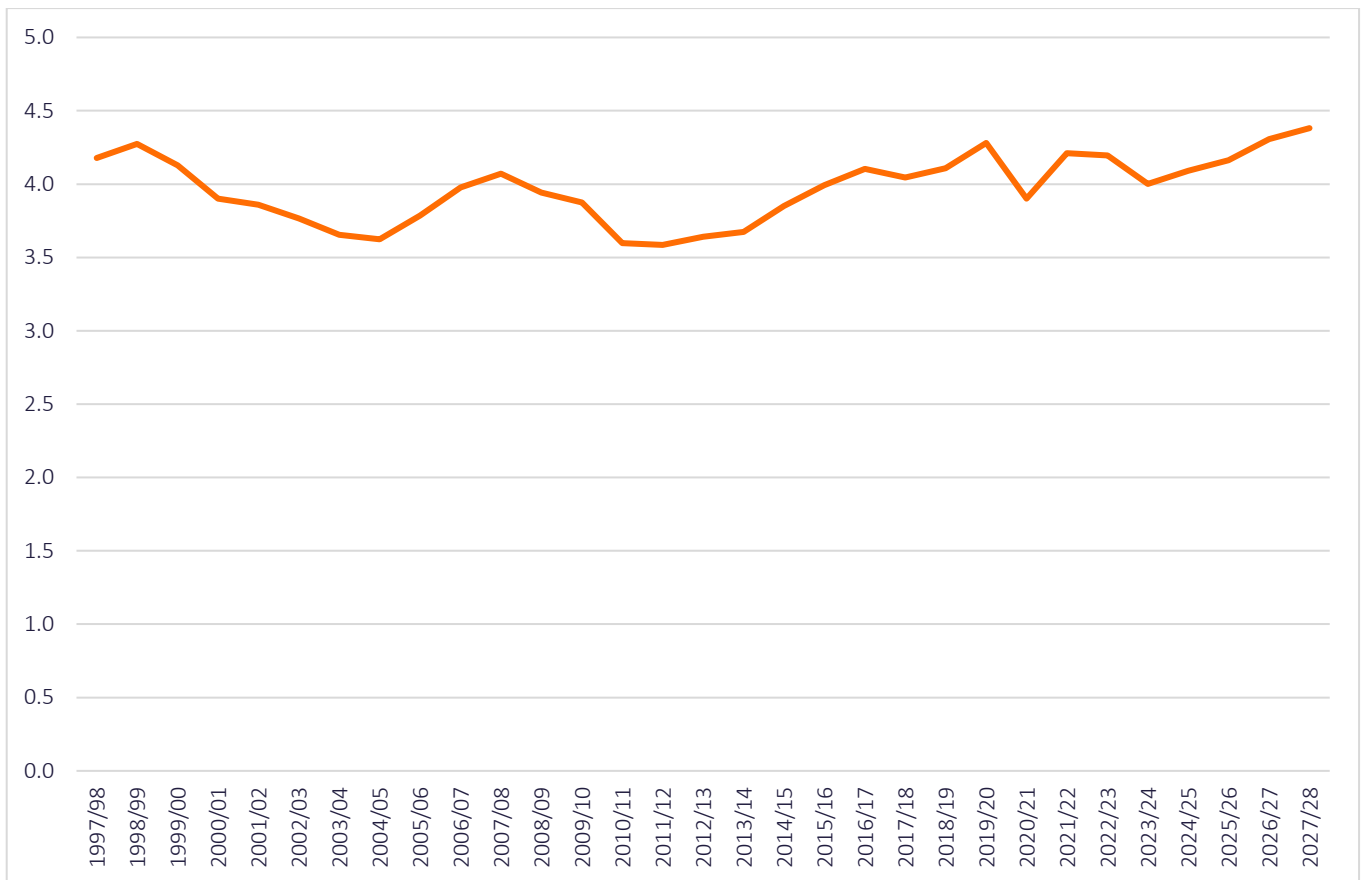
³ D Hirsch, *The cost of child poverty in 2021*, Centre for Research in Social Policy, 2021

⁴ Resolution Foundation forecast data supplied to author. Note that this uses 2020/21 as a starting point – a year in which the temporary increase to universal credit had contributed to a sharp temporary reduction in child poverty. However, this increase had been announced in order to improve the 'safety net' during the pandemic, and ending it has been widely seen as a return to an inadequate level of benefits.

⁵ M Brewer and others, *Child poverty in the UK since 1998-99: lessons from the past decade*, IFS, 2010

Looking ahead, child poverty will continue to rise, to a record 4.4 million by 2027/28. This is as a result of economic growth pushing up the median income and the continued roll-out of the two-child limit, which restricts support in the social security system to two children, affecting children born since 2017. Rising child poverty is forecast to occur entirely among larger families, where a majority of children are forecast to be in poverty by 2027/28.⁶

Figure 1: Child poverty 1997 to 2027, millions of children in households below 60 per cent of median income after housing costs



Source: Resolution Foundation forecasts, data supplied to author

The estimate of the cost of child poverty to society in this report 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. Second, spending on public services is substantially higher in areas where child poverty is high, because children growing up in poverty require a range of

⁶ M Brewer, E Fry and L Try, *The living standards outlook 2023*, Resolution Foundation, 2023; Resolution Foundation forecast data supplied to author.



compensatory measures as a result of the disadvantages they face. This ranges from more social services interventions to greater NHS spending to tackle ill health.

These effects were studied closely for the original 2008 report, which looked 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 financial 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 – including the effect of the forecast increase in child poverty over the next five years. The calculations repeat those made for the 2021 report.

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 cold, damp or overcrowded home; of having a parent who is forced to rely on charity to put food on the table; or of going to school in shabby second-hand clothes. With today's increased pressure on families' food and energy spending, the risks to children of these hardships are greater than ever.

While we cannot sufficiently estimate the human cost, we can make a good estimate of the financial 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 (JRF), estimated that child poverty cost the country £25 billion a year. By 2013 this had increased to nearly £30 billion, and by 2021 it had grown to nearly £38 billion. These increases in cash terms were due to a combination of higher prices and incomes, and higher child poverty.

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 spending on public services associated with high levels of child poverty.

Like the previous estimates, this update, again commissioned by Child Poverty Action Group, 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 what child poverty is likely to cost the country *at a minimum*, rather than a speculative figure of what it might cost in a worst-case scenario.

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 and the current cost of living crisis have influenced the experience of child poverty in ways that are not fully captured by the headline costs measured here.

During lockdowns, children in families with limited resources in terms of space in the home, computer equipment and other learning resources faced additional educational disadvantage that could have enduring consequences.⁷ Recent high inflation, moreover, has made it harder to afford essentials, even among those whose income relative to the median has not fallen. These adverse factors mean that 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 from its scarring effects throughout their lives. 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 estimated to be in relative poverty is currently slightly lower than when the previous estimate was reported in 2021, due to falling median income. However, it remains 8 per cent higher than when this series was started in 2008, and is forecast to rise again once the median income recovers. By 2027/28 child poverty will have risen by about 4 per cent, or 200,000 children, compared to the present financial year.⁸ While there are therefore fluctuations in child poverty, the underlying trend is presently upwards, as benefit cuts continue to roll out, particularly the two-child limit.

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 start to grow again in real terms, those at the bottom will once again fall behind, and relative poverty will rise.

In the following calculations, the 8 per cent increase in child poverty since 2008 is assumed to have a proportionate impact on its knock-on costs as calculated at that time. In a supplementary calculation, the further 4 per cent increase by 2027/28 is also factored in, but the effect of other changes is not forecast, to show only the effect of rising child poverty on its knock-on costs, expressed in today's prices.

⁷ R Blundell and others, *Inequalities in education, skills, and incomes in the UK: The implications of the COVID-19 pandemic*, Institute for Fiscal Studies, 2021

⁸ See Figure 1

Average earnings levels and the effect on lost earnings and taxes

The level of average earnings influences the cost of child poverty. This is because part of the cost is based on people who have grown up in poverty having reduced earnings as a result. The consequent loss of revenues both to wage-earners and to HMRC (because lower earnings produce less taxes) is likely to be greater if earnings rise generally. We assume that these losses increase in proportion to overall earnings levels.

Average earnings have risen in cash terms significantly, by a third over the past decade and by 11 per cent over the past two years.⁹ 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. This factor causes the cost of child poverty to increase steadily over time. In the past two years, the increase due to lost earnings and tax receipts has been slightly offset by the lower child poverty estimate, but is nevertheless rising overall.

On this basis, we estimate that:

- The cost in future lost earnings retained by individuals increased from £8 billion in 2008 to £12.3 billion in 2023.
- The cost to the Treasury in lost income tax from those individuals increased from £3.3 billion to £5 billion.
- The effect of further rises in child poverty by 2027 will increase these costs to £12.8 billion and £5.3 billion respectively, in 2023 prices.

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

Another knock-on cost of child poverty arises from the fact 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.

Since the freeze in most adult benefit rates from 2016 to 2020, benefits have been mainly indexed to inflation. There has been a lag in the application of these rises (with September inflation rates only being implemented the following April), and therefore the current 2022/23 rates reflect only in small part the latest rise in prices.

Nevertheless, basic benefit rates are now 5 per cent higher than they were during the freeze, and this adds to the public cost of unemployment. However, the unemployment rate has also been falling, from 5 per cent in 2021 to around 4 per cent now, and this reduces proportionately the calculation of the cost of increased risk of unemployment. This assumes that the additional risk of poverty to someone with a disadvantaged background is lower in a world where unemployment generally is lower. Overall, the lower unemployment rate has a larger effect than the higher benefit rate.

On this basis we estimate that:

- The overall cost to the Treasury in additional future unemployment benefits fell from £2 billion per year in 2008 to £1.6 billion in 2023.
- Higher child poverty by 2027 will increase this again to £1.7 billion, in 2023 prices.

⁹ ONS Average weekly earnings total pay figures. Comparisons are to October 2022.

Spending on universal 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 areas.¹⁰ To the extent that spending was higher in areas with higher 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 increased significantly in cash terms in the late 2010s, although they are not yet reflecting the higher prices and costs that are likely to feed into actual public spending in the next two years.

The following calculations are based on the proportion of actual spending that has previously been attributable to child poverty. As child poverty levels fluctuate, this could change. There is a perverse aspect to the calculation: the more that government allocates to services that help ameliorate the effects of child poverty, the greater the financial cost of child poverty is said to be.

In practice, what this means is that the cost becomes more visible, because the government is allocating more money to help the people whom poverty has harmed. The alternative of not spending this money would 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 2023, spending is substantially higher in cash terms than a decade ago 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 grew by about 50 per cent between 2013 and 2023, while spending on school education is nearly 25 per cent 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 child poverty.

On this basis:

- **The universal public services cost attributable to child poverty grew from £12.3 billion to £17.4 billion between 2008 and 2023.**

Most of the £17.4 billion comes from school education (£4.5 billion), children's social services (£4.2 billion) and healthcare (£3.5 billion).

Spending on services targeted at children in poverty

An additional public services 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.¹¹ 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

¹⁰ This work was carried out by a team at Herriot Watt University. See G Bramley and D Watkins, *The public service costs of child poverty*, JRF, 2008

¹¹ These policies, for England, also have equivalents in the devolved nations, not quantified here.

spending is higher in areas with higher levels of child poverty, and are therefore likely to have increased the magnitude of that effect.

Since 2021, spending on the Pupil Premium has risen from £2.5 billion to £2.7 billion a year, while spending on the Early Years Entitlement for two-year-olds has fallen from £0.5 billion to £0.4 billion.

On this basis:

- Targeted spending on services for children in poverty, in these two areas which have been introduced since the original 2008 calculation, added up to £3.1 billion in 2023.

Total costs attributed to child poverty

Adding up the above calculations, we estimate the cost of child poverty to have risen as follows over the past 15 years:

Estimated annual cost of child poverty in different years, £ billion

	2008	2013	2021	2023	Forecast 2027 (in 2023 prices)*
Reduction in privately retained future earnings	8.0	8.5	11.6	12.3	12.8
Future tax receipts lost to government	3.3	3.5	4.8	5.0	5.3
Additional future benefits bill	2.0	2.4	2	1.6	1.7
Additional universal public spending	12.3	12.7	16.3	17.4	17.4
Targeted public spending	0.0	2.7	3	3.1	3.1
Total	25.6	29.8	37.7	39.5	40.4

*No adjustment made for services spending due to higher child poverty, for which additional research would be needed.

Child poverty is now estimated to cost the country an estimated £39.5 billion a year, of which around £12 billion represents a reduction in the future prosperity of those affected as a result of earning less, £5 billion is the loss to the Treasury in the tax they would have paid had they earned more, nearly £2 billion is the estimate of how much more it will cost to support them during periods of unemployment and over £20 billion is the current cost in public expenditure on services addressing the consequences of child poverty. As shown, the projected increase in child poverty over the next five years will cause this to continue rising in real terms to over £40 billion, even before taking account of extra service spending that may be needed to address the difficulties faced by the greater number of children growing up in poverty.

But these projections are based on current policies, which are not set in stone. The alternative to society bearing the 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.

Appendix – the calculations

1. The level of child poverty

Year	Millions of children in relative poverty, after housing costs	% increase in child poverty since 2008/09
2008/09	3.9	-
2022/23 (Resolution Foundation 'nowcast')	4.2	7.7%
2027/28 (Resolution Foundation forecast)	4.4	12.8%

Source: Department for Work and Pensions, *Households Below Average Income* series; Resolution Foundation forecasts supplied to author

Effect on calculation: increases knock-on costs proportionately, so raises calculation related to benefits and earnings by the percentages shown.

(Note: no such increase was applied to the interim 2013 figures because the child poverty rate was at a similar level to 2008. Other calculations below start with 2013 as a baseline).

2. Earnings levels

	2013	October 2022	Increase
Average weekly earnings	£466	£624	34%

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 each child growing up in poverty, multiplied by child poverty rate.

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

	2013	2023	2027 (applying higher child poverty rate)
Private earnings lost	8.5	12.3	12.8
Tax receipts lost to government	3.5	5.0	5.3

3. Benefits levels

	2013	2023	% change
Percentage out of work	7%	4%	-43%
Adult benefit rate	£71.70	£77.00	7%
Combined effect			-38%

Source, Office for National Statistics, *Average Weekly Earnings* series

Effect on calculation: proportionate decrease in assumed future unemployment benefit costs resulting from each child growing up in poverty, multiplied by higher child poverty rate.

Calculation: cost in additional benefits (£ billion)

2013	2021	2027 (applying higher child poverty rate)
2.4	1.6	1.7

4. Costs arising from universal public service expenditure

Service	Contribution to cost of child poverty, 2013/14, £ billion	Cash spending increase 2013/14 to 2022/23, %	Estimated contribution to cost of child poverty, 2022/23, £ billion
Children's social services	2.75	51.8%	4.17
School education	3.62	23.8%	4.48
Police and criminal justice	1.26	46.3%	1.84
Healthcare	2.34	49.1%	3.49
Fire and rescue	0.91	6.0%	0.96
Remainder	1.78	39.5%	2.48
Total	12.65		17.44

Source: HM Treasury, *PESA tables, 2013/14 and 2022/23*, table 5.2

Notes on calculations: The 'remainder' items have been increased by the overall increase in expenditure on public services.

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

Service	2013	2021
Pupil Premium	1.9	2.7
Early years entitlement for two-year-olds	0.8	0.4
Total	2.7	3.1

Sources: House of Commons Library, *The pupil premium (England)*, 2022 and 'Early Years', IFS

Note

This update, commissioned by Child Poverty Action Group, presents calculations on an identical basis to those carried out in 2008, 2013 and 2021, 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:

G Bramley, D Hirsch, M Littlewood and D Watkins, *Counting the cost of UK poverty*, JRF, 2016

About CPAG

Child Poverty Action Group works on behalf of the more than one in four children in the UK growing up in poverty. It doesn't have to be like this. We use our understanding of what causes poverty and the impact it has on children's lives to campaign for policies that will prevent and solve poverty – for good. We provide training, advice and information to make sure hard-up families get the financial support they need. We also carry out high profile legal work to establish and protect families' rights.

About the author

Donald Hirsch was director of the Centre for Research in Social Policy (CRSP), Loughborough University from 2012 to 2022.