



The economic costs of childhood socio-economic disadvantage

November 2022

- On average across European OECD countries, working-age adults who experienced socio-economic disadvantage in childhood are about 3-6 percentage points less likely to be employed, earn about 20% less, and report worse health (equivalent to around two-week's full health per year) than adults with more favourable childhoods.
- These penalties represent important losses for economies. Across European OECD countries, the labour market penalties from childhood disadvantage are worth on average the equivalent of 1.6% of GDP each year, and the health penalties on average 1.9% of GDP, producing a total average cost from childhood disadvantage that stands at the equivalent of 3.4% of GDP, annually.
- The costs of childhood disadvantage are lowest in Finland at 1.4% of GDP, and highest in the Czech Republic and Lithuania at about 4.8% and 6.1% of GDP, respectively.
- These costs also include losses for public finances. Through reduced employment and weaker earnings, governments are losing up to 7% in tax revenues and paying out up to 6% more in social benefits to support those affected. The GDP-equivalent cost for government budgets stands at 0.7% of GDP, on average.
- With respect to employment and earnings, the penalties associated with childhood disadvantage are often smaller in countries with highly skilled jobs markets and with higher historic levels of social spending, among other things. Tackling childhood disadvantage requires reinforcing actions to prevent its occurrence and to mitigate its lifelong consequences. It is important that future work further explores how policies can be used to minimise the impact of childhood disadvantage and better avoid its costs.

Growing up in disadvantage limits opportunities later in life...

Growing up in socio-economic disadvantage has important and wide-ranging effects on children's lives. Children from disadvantaged families (see below) often fall behind in skills development, for instance (Clarke and Thévenon, 2022^[1]). These children frequently do worse in school, and often leave education with poorer knowledge and skills than their more advantaged peers. Socio-economic disadvantage also affects children's physical health, their mental health, and their social and emotional development, among

other aspects of well-being and development (Clarke and Thévenon, 2022^[1]). Through no fault of their own, children from disadvantaged backgrounds too often start life on an unequal footing.

These early inequalities matter for children's well-being now, but also have effects that continue to shape their opportunities and outcomes long after they reach adulthood. For example, by hampering skill development and educational achievement, childhood socio-economic disadvantage plays an important role in moulding later labour market opportunities. While there are exceptions, job options are frequently limited for adults who left education with little or no qualifications. Similarly, in part through its effects on childhood health, childhood socio-economic status is an important determinant of later adult health and freedom from activity limitation.

What do we mean by socio-economic disadvantage in childhood?

Child socio-economic status is a broad and multidimensional concept. Often measured using a combination of parental education, parental occupation, and household income or family/household possessions, childhood socio-economic status looks to reflect children's access to important economic and social resources and how this access compares to others around them. Childhood socio-economic disadvantage thus refers to a relative lack of access to important resources.

For our policy paper, "The economic costs of childhood socio-economic disadvantage in European OECD countries" (Clarke et al., 2022^[2]), we measure childhood socio-economic status using a composite index built on retrospective information from current adults on their home and family circumstances when around age 14. The index components include measures of material deprivation and household finances, parental education, and parental activity status. We consider those in the bottom quintile within their country on this index to have grown up in socio-economic disadvantage.

...and this carries costs, both for individuals and for societies

Ensuring all children, regardless of background, have full and equal opportunities in life is first and foremost a matter of equity and fairness. None of us control the conditions that we are born in to, and differences in outcomes that can be explained by circumstances beyond our control, like our family backgrounds, are widely seen as unjust by citizens in OECD countries (Ciani and Balestra, 2022^[3]).

But beyond fairness, there are other reasons to be concerned about the unequal opportunities available to children from socio-economically disadvantaged backgrounds. Social cohesion is one. Stagnant societies that offer little hope for progression can foster feelings of exclusion and discontent among disadvantaged groups (OECD, 2018^[4]). Economic prosperity is another. Lower employment and earnings among adults from disadvantaged backgrounds represent wasted talent and lost potential output, while weaker health represents lost welfare. Public finances likely suffer too, as reduced output means governments may lose out on tax revenues, and lower incomes mean governments may have to pay out more in social benefits to support those affected.

The scale of the impacts of childhood disadvantage is extensive...

Our policy paper, "The economic costs of childhood socio-economic disadvantage in European OECD countries" (Clarke et al., 2022^[2]), examines the scale of the economic costs of childhood socio-economic disadvantage. Drawing on Europe-wide survey data from the European Union Statistics on Income and Living Conditions (EU-SILC) survey 2019, we explore how childhood socio-economic disadvantage may affect later adult labour market and health outcomes, and use these estimates to evaluate the country-

level GDP-equivalent cost of childhood disadvantage due to lost employment, lost earnings, and lost health. For a sub-set of countries, we also extend this analysis to examine the secondary effects of lost employment and earnings on government tax revenue and benefit spending.

The findings show that across almost all European OECD countries, adults who experienced socio-economic disadvantage in childhood report reduced employment, lower earnings, and weaker health than adults with more “average” childhoods. On average, working-age men and women from disadvantaged backgrounds are, respectively, 3 and 6 percentage points less likely to be employed than those from “average” backgrounds, and once in work earn approximately 20% less per year. Adults who experienced childhood disadvantage also report worse health, equivalent on average to about a two-week per year reduction in time lived in full health without limitation.

There are various mechanisms lying behind these “penalties” from childhood disadvantage. Education, not surprisingly, plays an important role: we estimate that differences in educational attainment can explain roughly one-fifth of the overall association between childhood disadvantage and later earnings for men, and about one-quarter for women. They also explain about one-sixth of the association with later health. Other important mediating factors include differences in lifetime work experience – adults from disadvantaged backgrounds are less likely to have fuller employment records, which in turn decreases employment opportunities today – and also health itself, in the case of the labour market penalties from disadvantage.

We also find evidence that these disadvantage-driven penalties likely have secondary effects on public finances. Leaving aside the potential costs for health systems, we estimate that in a sub-set of European OECD countries, reduced employment and weaker earnings among adults who grew up in disadvantage result in losses in the worst affected countries of up to 7% in government tax revenues from working-age households, and increases of up to 6% in government non-pension benefit spending going to working-age households.

...and its costs implicate all of society

These penalties carry large costs for our societies. Using monetisation techniques drawn from the research literature on the costs of child income poverty, we estimate that the labour market penalties attached to childhood disadvantage are worth on average the equivalent of 1.6% of GDP each year, and the health penalties the annual equivalent of 1.9% of GDP. Bringing the two together produces a total average cost from childhood disadvantage that stands at the equivalent of 3.4% of GDP; in other words, through weaker health, reduced employment, and lower earnings, historic childhood disadvantage is costing European OECD countries the equivalent of 3.4% of GDP, each and every year.

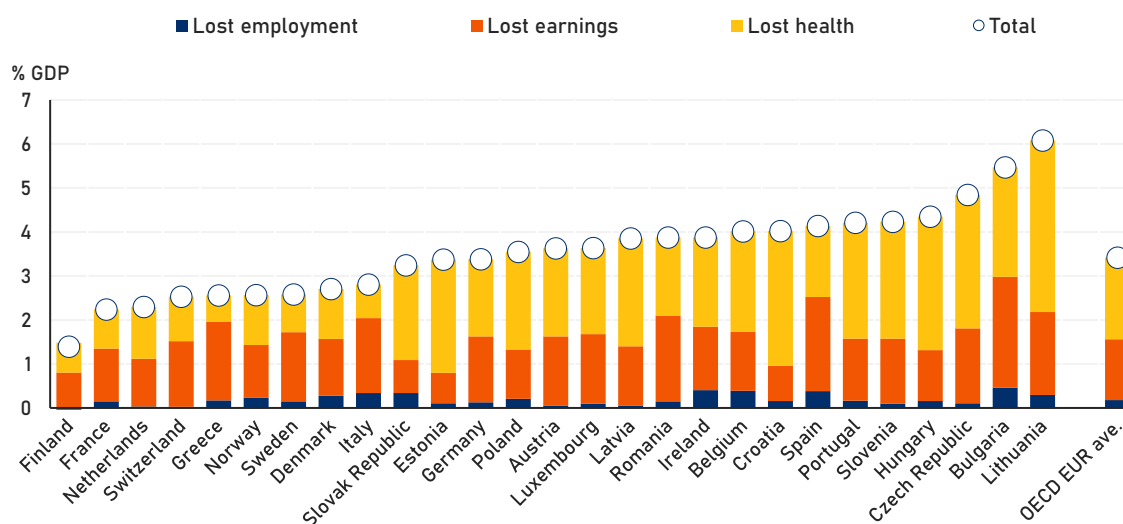
There are differences in the size and composition of these costs across countries. We find that the overall cost of childhood disadvantage is lowest at 1.4% of GDP in Finland, where the penalties for growing up in disadvantage are comparatively small. They are highest in Hungary (4.3% of GDP), the Czech Republic (4.8%), and especially Lithuania (6.1%), in all cases due to relatively large health penalties from childhood disadvantage. Belgium, Portugal, Slovenia and Spain also see relatively high overall costs (equivalent to 4% or more of GDP), in the latter case due mostly to a strong negative association between childhood disadvantage and later labour earnings.

Identifying the factors that drive cross-country differences in the penalties from disadvantage requires further research, but our policy paper provides a few tentative suggestions. With respect to employment and earnings, we show that the impact of disadvantage is often smaller in countries with lower absolute levels of childhood disadvantage, with lower inequality in childhood social and economic resources, with highly skilled jobs markets, and with higher historic levels of social spending, among other things. While

not causal evidence, these associations suggest much of the impact of childhood disadvantage can be mitigated with the right environment and policy set up.

The costs of childhood socio-economic disadvantage

Estimated total monetary value of “lost” employment, earnings, and health for 25- to 59-year-olds who grew up in relative socio-economic disadvantage, % of GDP, by country, 2018-19



Note: “OECD EUR ave.” refers to the unweighted average across the 24 covered European OECD countries. It excludes Bulgaria, Croatia and Romania.

Source: Clarke et al. (2022^[2]), based on the European Union Statistics on Income and Living Conditions (EU-SILC) survey 2019, doi.org/10.2907/EUSILC2004-2020V.1.

These estimated costs underline the importance of reinforcing policy efforts to tackle childhood social and economic disadvantage. Previous work has shown that a wide range of actions are needed to both prevent the occurrence of disadvantage and to mitigate its consequences throughout the life course (OECD, 2018^[4]; OECD, 2019^[5]). Helping families meet children’s basic needs from birth onwards is crucial. This includes ensuring housing and financial security, as well as combating the deprivation that children may experience with respect to food or nutrition, learning environments, and social and leisure opportunities. Making sure that parents have the time and resources they need to provide care and support to their children is also essential, as are investments in education and schooling – including in early childhood programs. Health policies – including for children – and employment policies are also important elements for preventing childhood socio-economic disadvantages turning into health and employment penalties across the life span. What and how countries are spending on children could be re-examined if they are to minimise childhood disadvantage and avoid the economic costs that follow as disadvantaged children move into adulthood.

Further reading

- Ciani, E. and C. Balestra (2022), “Current challenges to social mobility and equality of opportunity”, *OECD Papers on Well-being and Inequalities*, No. 10, OECD Publishing, Paris, <https://doi.org/10.1787/a749ffbb-en>. [3]
- Clarke, C. et al. (2022), “The economic costs of childhood socio-economic disadvantage in European OECD countries”, *OECD Papers on Well-being and Inequalities*, No. 09, OECD Publishing, Paris, <https://doi.org/10.1787/8c0c66b9-en>. [2]
- Clarke, C. and O. Thévenon (2022), “Starting unequal : How’s life for disadvantaged children?”, *OECD Papers on Well-being and Inequalities*, No. 06, OECD Publishing, Paris, <https://doi.org/10.1787/a0ec330c-en>. [1]
- OECD (2019), *Changing the Odds for Vulnerable Children: Building Opportunities and Resilience*, OECD Publishing, Paris, <https://doi.org/10.1787/a2e8796c-en>. [5]
- OECD (2018), *A Broken Social Elevator? How to Promote Social Mobility*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264301085-en>. [4]

Contacts

For more information contact us: wellbeing@oecd.org.

Resources

OECD Child Well-being Portal, oe.cd/child-well-being

OECD Child Well-being Dashboard, oe.cd/cwb-dashboard

OECD Observatory on Social Mobility and Equality of Opportunity, oe.cd/smeo

Understanding Social Mobility, oe.cd/social-mobility

OECD Centre on Well-being, Inclusion, Sustainability and Equal Opportunity (WISE)

www.oecd.org/wise

This paper is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and the arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.