



A Future of Child Poverty in Puerto Rico: How Much It Costs and What We Can Do About It



YOUTH
DEVELOPMENT
**INSTITUTE OF
PUERTO RICO**

Puerto Rico stands at a critical moment as it carves its future. The economic model that guided development for decades is no longer feasible. Financing alternatives available before the crisis are no longer an option. The population we count on to support future development is declining and aging. The institutional framework over which development was predicated is bankrupted. And as the Boricua Summer of 2019 showed, the people of Puerto Rico are dissatisfied with its institutions, and feel that the public policy of the country does not respond to the challenges they face in their everyday lives.

About 656,000 children live within this dire backdrop. They carry a heavy load on their shoulders. These boys and girls are the ones who will build the new Puerto Rico. Although these kids are full of will, hope, and enthusiasm, many lack the tools to be the protagonists of the economic future of Puerto Rico, where more than half, 383,000 children live in poverty. Even 38% of them live in extreme poverty with incomes around of \$3,950².

Poverty harms the healthy development of children. It affects the child's cognitive development, nutrition, health, school attainment, and exposure to crime. Certainly, some children growing up in poverty will overcome the obstacles imposed by their limiting circumstances and will succeed. But it will not be easy, and a lot of children will be left behind.

The consequences of child poverty go beyond the children themselves and their families. The loss of human potential associated with child poverty is costly for the whole society and threatens Puerto Rico's prosperity. Today's child poverty affects Puerto Rico's future in four main ways:

- ① children growing up in poverty attend lower-quality schools, are less likely to finish high school, and are less likely to pursue post-secondary education, all of which reduce the country's productivity levels;
- ② children who grow up poor have lower earnings as adults, reducing the level of aggregate consumption in the economy;
- ③ children who grow up poor are in poorer health as adults and are more likely to develop chronic health conditions, which is costly for all and reduces the quality of life of Puerto Ricans; and

- ④ children who grow up poor and in high-poverty areas are more likely to engage in crime and to be themselves victims of crime as youths and adults, augmenting safety expenditures for the government and the private sector and reducing safety for all.

This report focuses on the consequences of child poverty for Puerto Rico and what we can do about it. Specifically, this report:

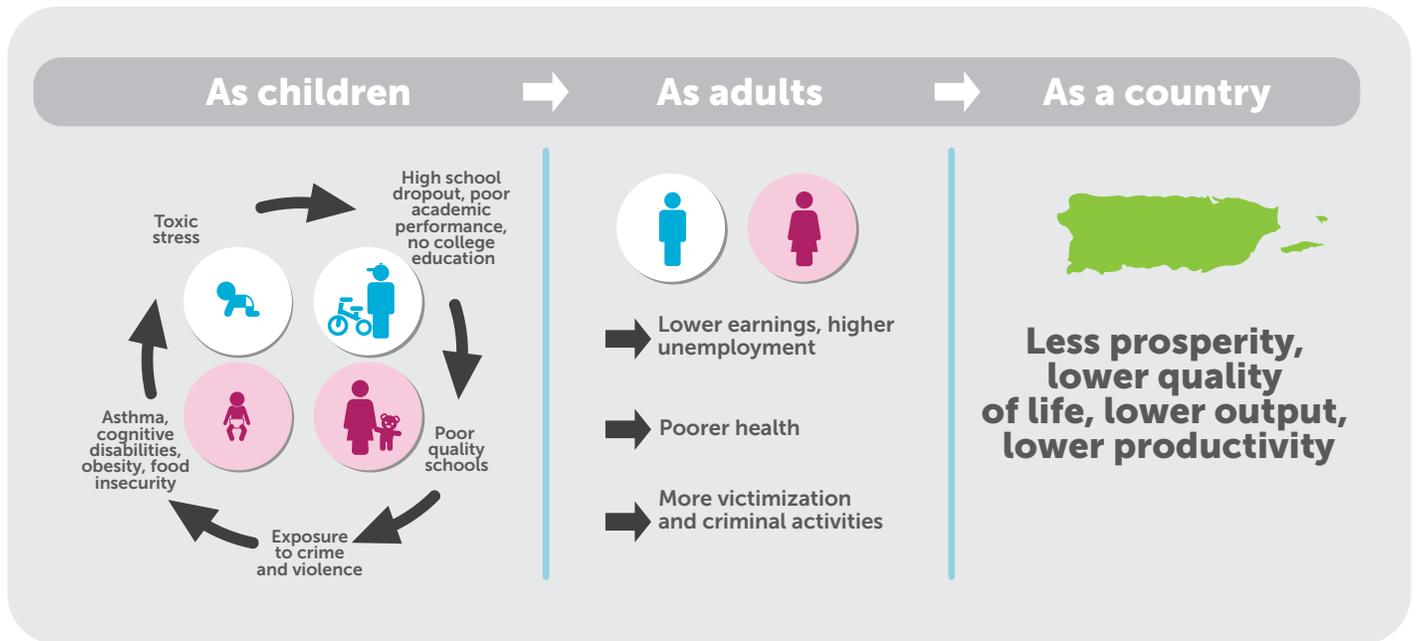
- ① presents evidence about the impacts of poverty on Puerto Rican children;
- ② quantifies the annual cost of child poverty; and
- ③ develops a road map to significantly reduce poverty in three to ten years.

No study can possibly quantify all the costs associated with poverty. Following studies in other countries, we concentrate on the costs of lost earnings, health, and crime, but even within these three domains, our accounting is likely to be incomplete. Therefore, our figures are a conservative estimate of the overall cost of child poverty. The conceptual framework driving this report posits that poverty affects the healthy development and well-being of children and that its effects carry on to adulthood and, eventually, the country, as shown in **Figure 1**.

From this perspective, the cost of child poverty is seen in terms of the loss of human potential. Research has documented how poverty exposes children to toxic stress that affects their neurobiological development and, consequently, their learning abilities, academic performance, and emotional well-being. Lack of economic resources is another mechanism by which poverty affects children's outcome. Lack of money means less access to good-quality schools and to inputs that are accessories to a good education, such as books, computers, visits to museums, extracurricular activities, and cultural exposure, among others.



FIGURE 1 Child Poverty and Its Repercussions



The environment is yet another conduit by which poverty reduces the opportunities for the healthy development of poor children. Poor children are more likely to live in areas exposed to environmental hazards such as lead, industrial pollutants, and environmental chemicals.

All this combines to constrain the healthy development of children and their opportunities as adults, reducing their earnings and employment chances, compromising their health, and increasing their chances of engaging in crime or being victims of a crime. The country, in turn, loses much human capital needed for development, prosperity, and quality of life.

Technical Approach

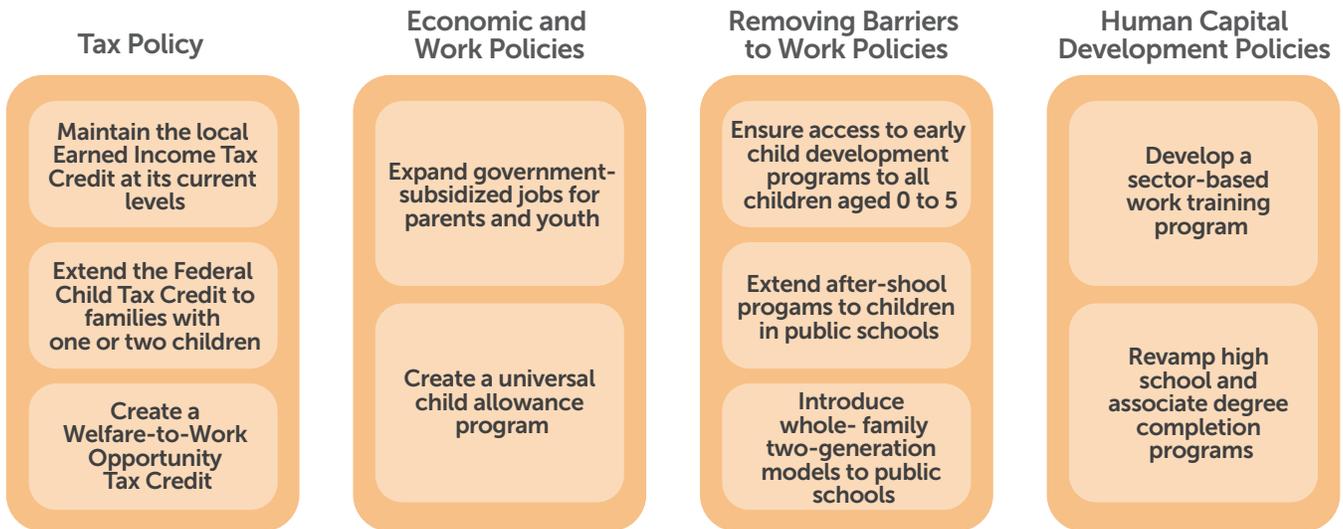
There are three main approaches to estimate the costs of child poverty: 1) the accounting or budgetary approach; 2) the income gap approach; and 3) the human potential or capabilities approach. The budgetary approach essentially considers all the government expenditures directed to mitigate poverty. The income gap approach asks how much money it would have to be given to families to move them out of poverty. None of these two approaches examine costs arising from the consequences of growing up poor. The human potential approach looks at how poverty shapes the opportunities of children as they move to adulthood.

We follow the loss of human potential approach. To compute the cost of child poverty, we considered the consequences of growing up poor in terms of: 1) earning losses due to lower educational attainment, lower productivity, and lower employment; 2) increased expenditures on health, loss in quality of life, and increased cost of special education; and 3) higher crime and exposure to violence.

The data used to compute the costs of child poverty come from a variety of sources: 1) findings from published research with evidence on Puerto Rico; 2) findings from published international research; 3) reports from government agencies; 4) data from nationally representative surveys; 5) data on child poverty and health, earnings, and crime for the 78 municipalities of Puerto Rico; and 6) in-depth interviews with low-income mothers. These data suggest a relationship between child poverty and the cost dimensions examined and a child poverty penalty on earnings, health, and crime.

We propose a policy road map to address child poverty. Policies were organized around four domains as shown in **Figure 2**. 1) taxes; 2) economic and work; 3) removing barriers; and 4) human capital development.

FIGURE 2 Policy Groups



The particular policies within each domain were selected based on:

- 1 how much money will go directly to the pockets of poor families with children after the policy is implemented;
- 2 how many children in poverty each policy would reach;
- 3 what would be the impact of each policy in reducing the child poverty rate
- 4 how much this policy would cost; and
- 5 whether there is rigorous evidence that supports implementing this particular policy given Puerto Rico's economic outlook.

The specific policies in the four domains shown in **Figure 2** were organized in three policy combinations (**Figure 3**). The rationale behind these policy combinations is the relationship between the cost of the programs and policies and their effectiveness in reducing child poverty. Importantly, while we simulate the effects of these policies individually, there is synergy among them that can increase impact. For example, subsidized work can increase the amount of earned income in a household which could increase the amount of the Earned Income Tax Credit and the Child Tax Credit, therefore reducing child poverty even more. In the same way, increasing access to early childhood development programs would provide time for parents willing to enter a work training program or a high school and associate degree completion programs.

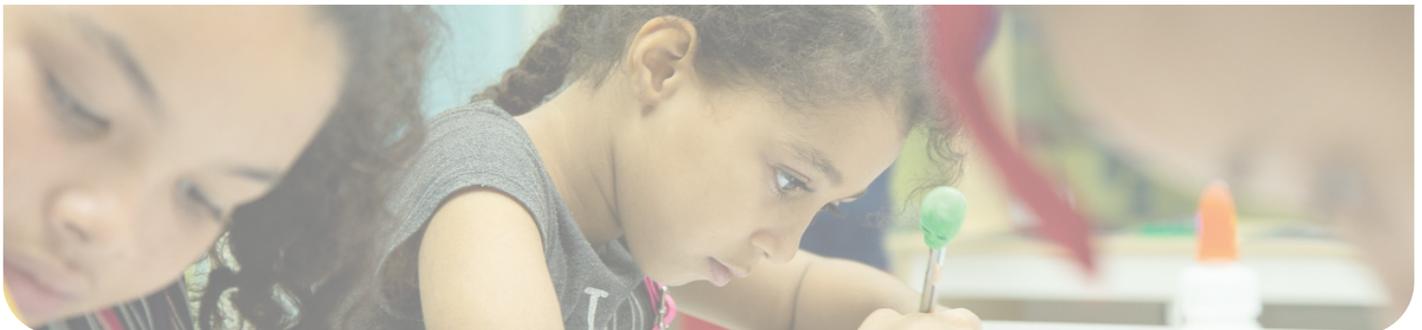
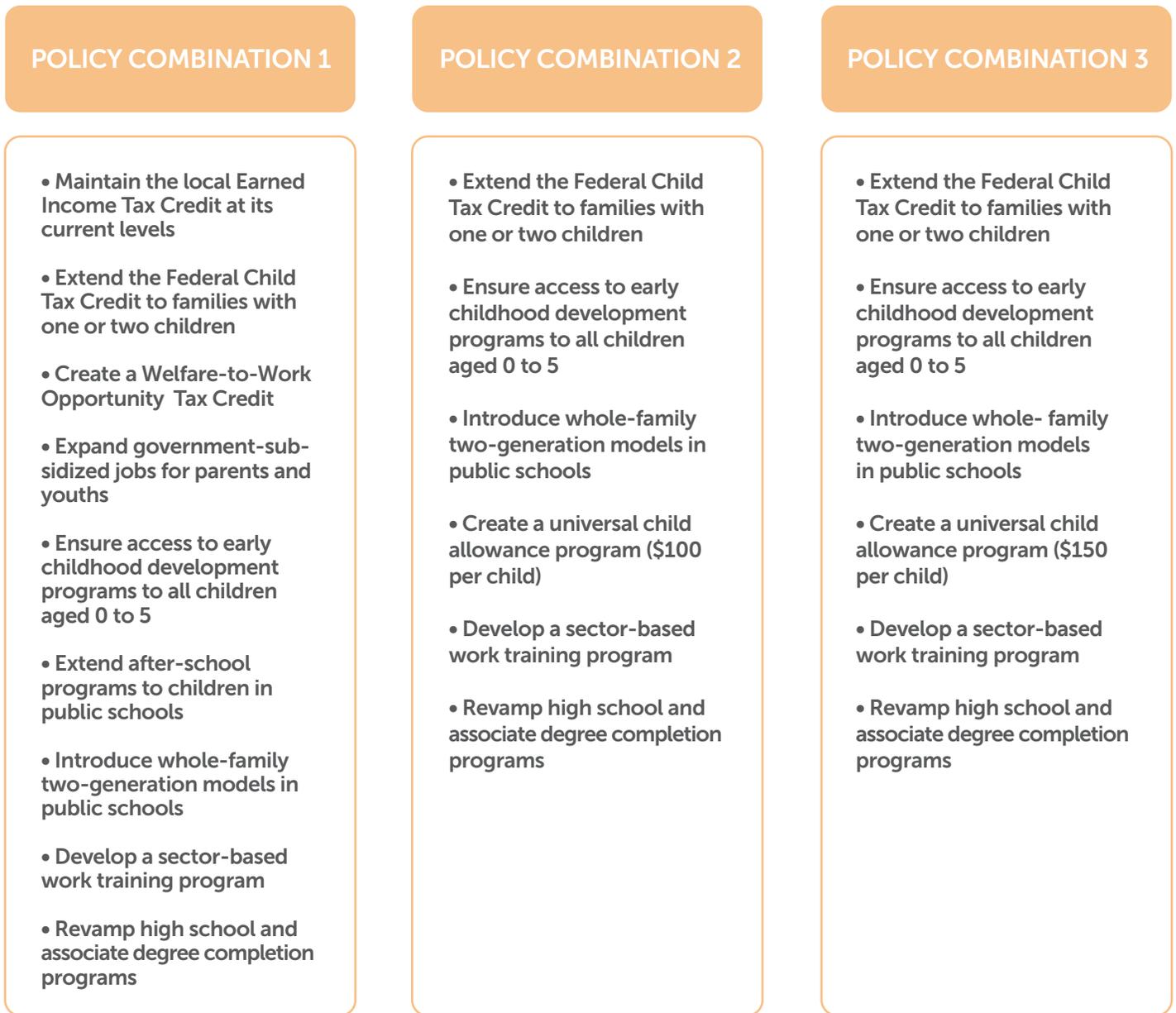


FIGURE 3 Policy Combinations



How Much It Costs?

Figure 4 shows the estimated costs of child poverty. Child poverty costs Puerto Rico \$4.4 billion annually. This cost represents 4.3% of the Gross Domestic Product (GDP).

We estimated that in 2017 the country lost \$1.9 billion in earnings due to child poverty. This is a combination of lower earnings for those who are working and lack of earnings due to unemployment. The average child exposed to poverty most of his or her life loses \$17,922 annually due to child poverty³.

In terms of health, we estimated a total cost of \$1.3 billion. Child poverty means higher health expenditures per capita, higher expenditures on special education, and loss of quality of life or value of health capital. Health expenditures per capita were 58% higher, and expenditures on public special education almost tripled because of child poverty. Child poverty reduced the value of health capital by \$1,271 per year per person.

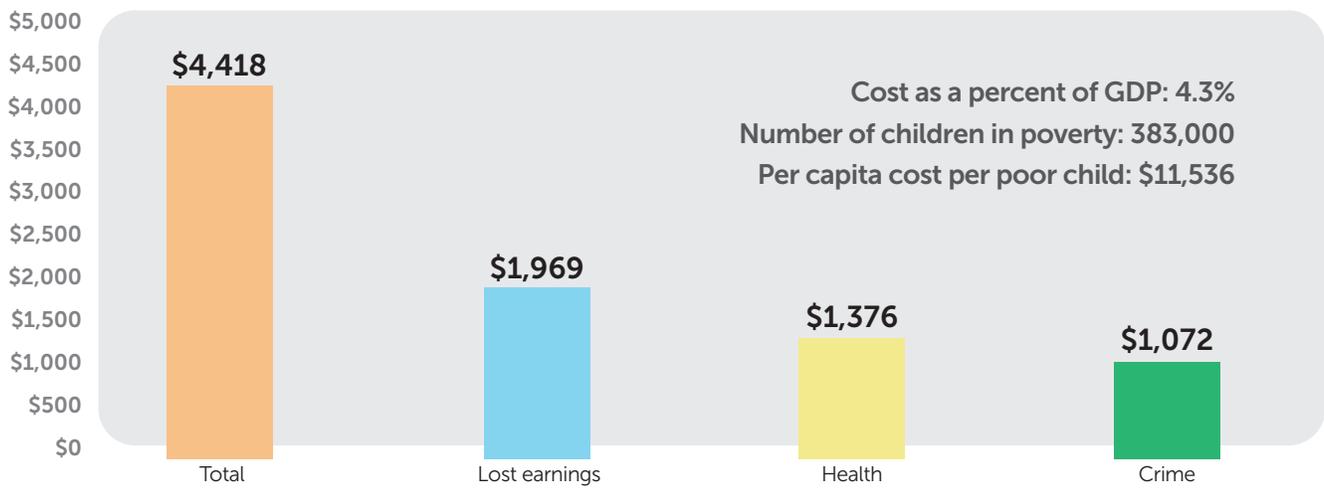
With respect to crime, we can only estimate a low-bound of costs, since the cost of crime considered were only those of street crimes, and only the tangible costs, not considering pain, suffering, and other psychological effects. We took into consideration:

- ① government costs directly related to crime;
- ② value of stolen property;
- ③ earnings losses due to incarceration;
- ④ direct costs of homicides (lost earnings, funeral costs); and
- ⑤ partial costs of private safety.

Each murdered person resulted in lifetime lost earnings of \$337,000, partial private security costs amounted to \$460 million, and the government’s cost of crime amounted to \$1.2 billion. However, not all these costs can be attributed to child poverty. We conclude that 50% of the cost of crime can be attributed to child poverty, for a total of \$1.07 billion.

All these costs combined summed up to \$4.4 billion in 2017. This is a yearly cost, meaning that if we keep things the same, we will confront these costs every year. Since the child population is declining another way to think about these costs in the future is using the per child figure of \$11,536 or the percentage of the GDP of 4.3%.

FIGURE 4 Cost of Child Poverty, 2017 (in millions)



What Can Be Done?

Child poverty in Puerto Rico is not an intractable problem. An aggressive and deliberate anti-child poverty strategy can reduce child poverty significantly in three to ten years. Under the interventions on Policy Combination 1, child poverty could be reduced from 58% to 49% in three years at a cost of \$6.4 billion. While in 10 years, it can be reduced to 37% at a cost of \$21.5 billion as shown in **Figure 5** and **Figure 6**. These policies are especially effective in eradicating deep poverty -measured as incomes that are 50% below the poverty line- as it can be reduced from 39% to 11% in 10 years.

FIGURE 5 Child Poverty Reduction under Different Policy Scenarios

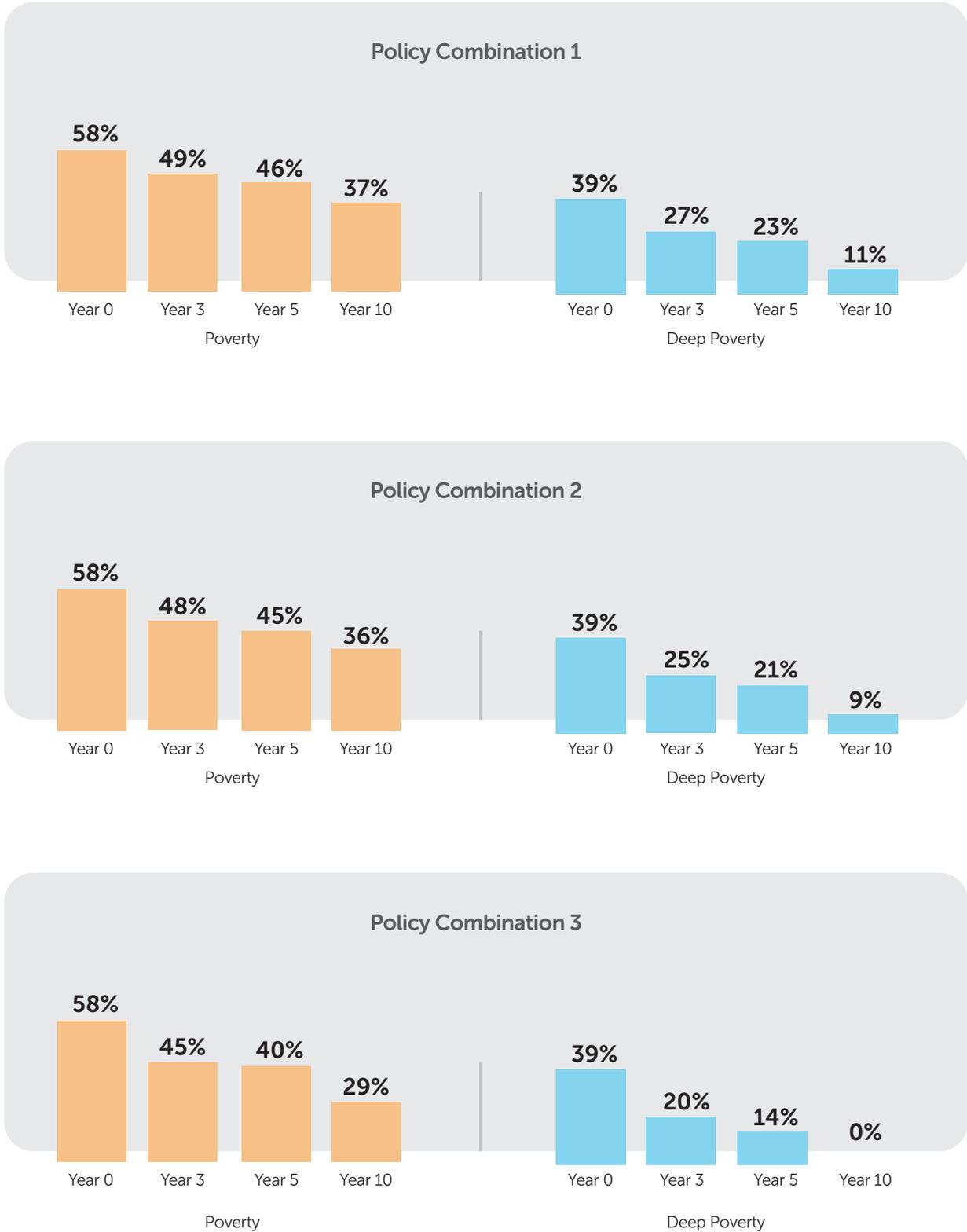
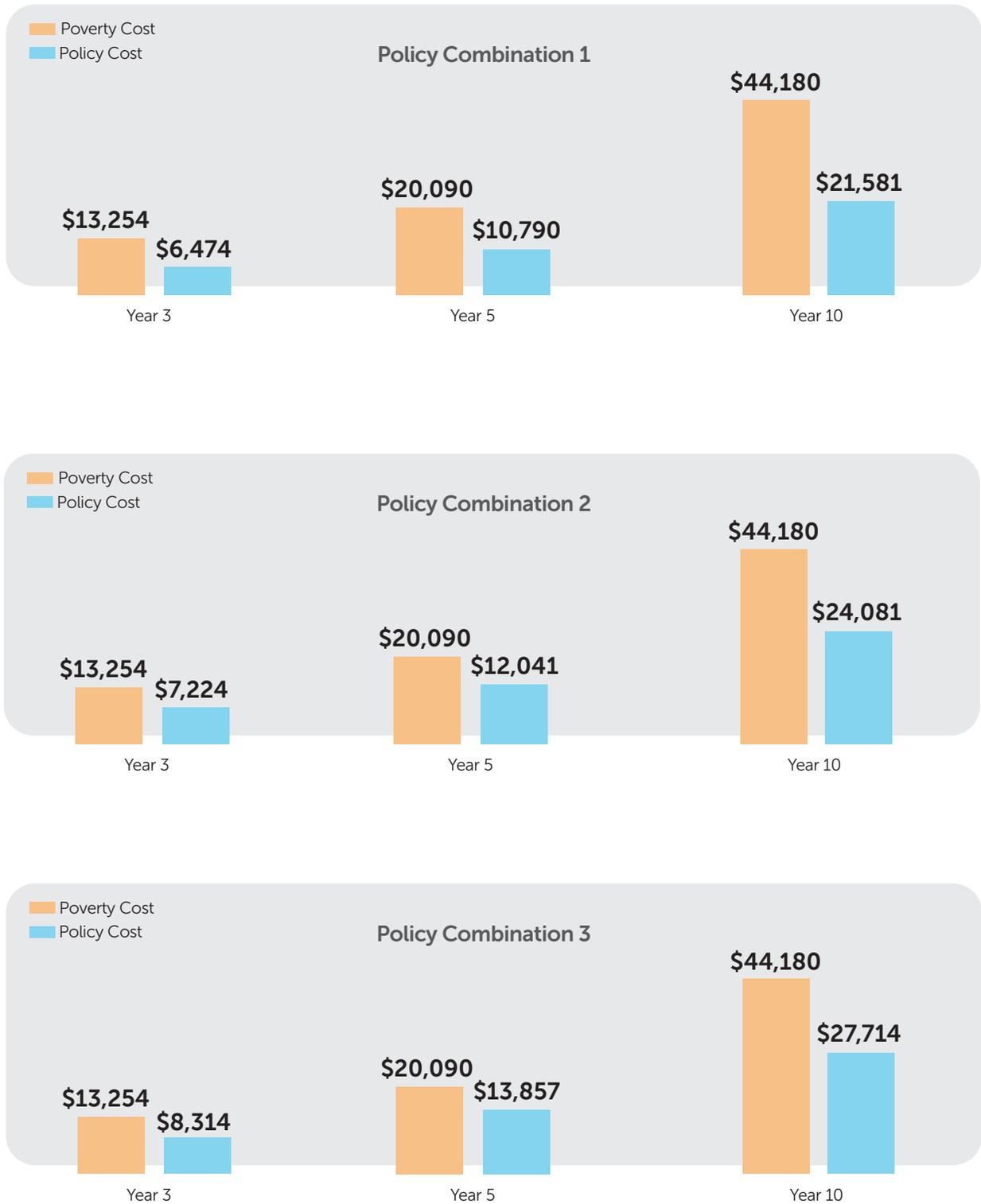


FIGURE 6 Costs of Child Poverty and Costs of Solutions (in millions)



It is important to note that the cost of any of these policy combinations up to ten years are well below to the annual cost of doing nothing, which is estimated at \$4.4 billion annually. The road for implementing a robust strategy to eradicate child poverty in Puerto Rico does not start from scratch since there are policy tools that can be used to foster this goal. There are government structures, legal framings, and sources of local and federal funding that can be leveraged when implementing the road map to reduce child poverty significantly in ten years. There are also nonprofit organizations providing services whose experience can enhance the effectiveness of the proposed policy solutions and whose services could be strengthening in the goal of reducing child poverty. Some of the proposed policies do not require new funding, part or all of their costs could be covered improving government efficiencies and making a better use of available funds. Examples of tools and funds that are available are: WIOA training programs; Puerto Rico Law 52 for the Promotion of Employment Opportunities; One Stop Centers; the Department of Education's Adult Education Program; grants from the US Department of Labor; and Department of Housing programs for communal and residential services. In addition, it's important to look into the way in which resources set aside for children, such as the Puerto Rico Children's Trust, are being used and if these can be refocused to reduce child poverty.

Epilogue

Child poverty is costly for the children, their families and the country. But Puerto Rico's child poverty is not an intractable problem. It can be reduced substantially over the next ten years if key stakeholders harness enough political will. It is possible to address child poverty and significantly reduce its impact on children and the economy. This is an effort that will require participation from government, non-profits, businesses, and the federal government. The three policy alternatives presented are a guide for eradicating child poverty and set Puerto Rico into a path to economic growth and prosperity. We know why and we have the how; it is just a matter of when we want to start. Eradicating child poverty is costly, but it costs more to not address it.

¹Data for 2017 from the Puerto Rico Community Survey.

²Ruggles et. al, 2017.

³Gross lost earnings amounted to \$4.8 billion. This amount was multiplied by 0.41 to maintain the distribution of income among earnings, capital, and transfers which resulted in \$1.9 billion.





YOUTH
DEVELOPMENT
INSTITUTE OF
PUERTO RICO