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What Are the Long-Term Economic Costs of Psychological Problems During Childhood?

Recent research has established evidence of a strong link between poor physical health during childhood (and even in utero) and health and economic outcomes much later in adulthood. But much less is known about the long-term economic consequences of psychological conditions experienced during childhood, although childhood psychological conditions—including depression and substance abuse—are a growing concern for American children.

A new study by James P. Smith and Gillian C. Smith funded by the National Institute on Aging seeks to get at this issue. The authors used the Panel Study of Income Dynamics (PSID)—which follows groups of siblings and their parents for up to 40 years, *prospectively* collecting information on education, income, work, and marriage—and a *retrospective* child health history designed by the lead author. That history was placed into the 2007 PSID wave to measure whether respondents had any of 14 childhood physical illnesses or suffered from depression, substance abuse, or other psychological conditions.

Key study findings include the following:

- Childhood psychological conditions have large effects on the ability of affected children to work and earn as adults and to get married and smaller effects on their ability to achieve educationally.
- Controlling for physical childhood diseases shows that these effects are not the result of the coexistence of psychological and physical diseases, and controlling for within-sibling differences shows that the effects are not the result of unobserved common family differences.
- The long-term economic damages of such effects are very large—a reduction in family income of about \$10,400, amounting to a loss that will be sustained, on average, through all adult years.
- Using a 3-percent real discount rate, this translates into a lifetime cost in lost family income for the individuals affected of about \$300,000.
- If one in 20 adult Americans experienced these psychological problems during their childhood years (about the current prevalence), total lifetime economic damages for all those affected would be \$2.1 trillion.
- This estimate likely understates the costs, because it ignores the significant noneconomic costs associated with these psychological disorders.

The study concludes that in some ways, such as the eventual economic costs, pathways related to childhood mental disorders are even more important than those related to childhood physical illnesses. Effective treatments targeted at children that lower the risk of experiencing these psychological conditions or that mitigate their adult psychological and economic consequences are likely to have long-lasting payoffs and to be very cost-effective. Treating children effectively will also likely benefit their parents, siblings, classmates, and neighbors.

This fact sheet is based on Smith JP, and Smith GC, "Long-Term Economic Costs of Psychological Problems During Childhood," *Social Science & Medicine*, Vol. 71, No. 1, July 2010, pp. 110–115.

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