Behind the Numbers

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EARLY CARE AND EDUCATION

In 2007, the Family and Children First Council launched the Early Care and Education (EC&E) initiative. (See pages 13 and 14.) The vision of the EC&E initiative is that all children in Montgomery County will be school-ready by the time they enter kindergarten. The Council is supporting the initiative with $420,000 received from the Human Services Levy and the Frank M. Tait Foundation has contributed $50,000.

These investments made sense to the decision-makers because they realized that the EC&E initiative will enable Montgomery County to access up to $5 million annually from state and federal programs geared at early learning within three years – a tangible and quick return on investment.

But in a larger sense, is an investment in pre-kindergarten care and education worth it? Most people, speaking from their hearts, would say "Yes!" As we have seen, the people entrusted with making investment decisions—whether they be government officials planning for the expenditure of taxpayers' dollars or private individuals in charge of foundations and corporations—need to answer with their heads.

Some researchers and analysts with very sharp pencils and well-used calculators have recently been taking a cold hard look at that very question. Fortunately, their heads agree with our hearts. You know we are entering a new era when you read that some researchers (officials with the Federal Reserve Bank of Minneapolis) have concluded "that there is serious underinvestment in early childhood education *as a form of economic development*."[1] (Emphasis added.)

Why all the excitement? And why now? The issue has even come up in some of the presidential primary campaigns. These policy briefs and research reports that advocate spending large amounts of public money on early childhood education fully acknowledge that we are in a time of "budget austerity" and "fiscal restraint." Perhaps the key to getting to the bottom line of their thinking is, well… the bottom line. They may differ in the numbers but they agree that government spending on early care and education can actually return money to the government.

This "bottom line" thinking is just one ingredient in the formation of a kind of "perfect storm," one that has showered increased attention on the wisdom of early childhood investments. As Dana Friedman has pointed out:[2]

- There are now several long-term studies that have followed graduates of early learning programs through adulthood and documented significant savings in the area of remedial education, school drop outs, welfare and crime. The studies conclude that improvements to social and emotional well-being yield greater returns than a focus exclusively on cognitive gains.
- Neuroscientists armed with new technologies have created startling insights into how the brain works and what inputs are needed to optimize its development. These data, accompanied by colorful, computer-generated pictures of the brain, both stimulated and unstimulated, suggest economic savings from investments in early learning, particularly in the area of social and emotional development.
- Building on the longitudinal studies and brain research, economists have begun to quantify the economic importance of early care and education in both the short- and long-term. This pioneering work is due, in part, to a desire to create appropriate economic models for today's service economy, where most workers provide services, versus a manufacturing economy, where most people work to produce goods. Early childhood programs are services that have been absent from current economic theories; however, they are now being used in the design of pioneering economic modeling.

In addition to traditional cost/benefit analyses, economic researchers have examined the short-, medium- and long-term impact of early care and education on human capital, the long-term effects that fiscal policies have on children, and the short-term economic development effects from EC&E programs.[3] We can now ask, "What are some of the key findings from these different approaches?"

One of the most widely cited cost/benefit analyses was conducted on one of the most well-known early childhood programs, the High/Scope Perry Preschool Project in Ypsilanti, Michigan. 123 children who attended preschool for 2½ hours per day, 5 days per week, for two school years, and who received a home visit from the teacher once per week, were followed to the age of 27. By comparing them to a control group that did not get such services, researchers found that for every dollar invested in the project, over $7 in benefits were returned, either to the participants or to society.[4]

The economist and Nobel Laureate James Heckman champions the positive effects that early childhood investments have on human capital. The key to his approach is his insight that skills learned early in life are more useful to people over more years of their life than skills learned later, and that, in his words, "skills beget skills." The more skills people have, the more able they become, and people who are more able acquire more skills. In short, "The returns to human capital investments are greatest for the young for two reasons: (a) skills beget skills, and (b) younger persons have a longer horizon over which to recoup the fruits of their investments."[5]

Other researchers have pondered the long-term effects of recent government fiscal policies, including tax cuts and increases in Medicare spending. They argue that these policies will "redistribute resources across generations by raising the fiscal burdens placed on future generations." This provides a justification for investing in today's children, who will be tomorrow's taxpayers, so that they are equipped with the skills and the human capital needed to be productive.[6]

Another group of researchers has been analyzing the effects that EC&E services have on the local and regional economy. For example, a 2004 study in the state of New York found that the child care industry was a $4.7 billion industry representing 750,000 working parents earning over $30 billion annually. These researchers state that "new theories of economic development emphasize investments in the social infrastructure and the quality of life as foundations for a new creative economy."[7]

The tools being used by these researchers have reached the point where detailed projections can be made. One of them, Robert Lynch, has suggested that a high quality pre-K program serving 3- and 4-year olds from the lowest quarter in the income distribution could pay for itself in Ohio in 4 years.[8] (See Figure 1.)

We can see that a growing number of researchers, taking different approaches and coming from different directions, are reaching the same conclusion: investments in early childhood pay for themselves and make sense.

1 Isaacs, Julia B. Budgeting for National Priorities: Cost Effective Investments in Children. The Brookings Institution, January 2007. Available at www.brookings.edu/budget.

2 Friedman, D.E. The New Economics of Preschool. Early Childhood Funders' Collaborative, October 2004.

3 Belfield, C. Early Childhood Education: How Important are the Cost-Savings to the School System? NY: Center for Early Care and Education, February 2004; cited by Friedman.

4 Barnett, W.S. Lives in the Balance: Age 27 Benefit-Cost Analysis of the High/Scope Perry Preschool Program. Monographs of the High/Scope Educational Research Foundation: Number 11, 1996; cited by Friedman.

5 Heckman, J.L. Invest in the Very Young. Chicago, IL: Ounce of Prevention Fund, 2000; cited by Friedman.

6 Gale,W.G. and Kotlikoff, L.J. Effects of Recent Fiscal Policies on Today's Children and Future Generations. Working Paper, 2004; cited by Friedman.

7 Warner, M., Ribeiro, R. and Smith, A.E. Addressing the Affordability Gap: Framing Child Care as Economic Development. Journal of Affordable Housing and Community Development Law, 12(3), p. 295, 2002; cited by Friedman.

8 Lynch, R.G. Enriching Children, Enriching the Nation. Ohio Summary, Economic Policy Institute, 2007. Available at http://www.epi.org/content.cfm/book_enriching_state_facts.

UNIVERSAL PROGRAM COSTS & BENEFITS IN OHIO

When the program would start paying for itself	8 years
Annual cost of fully phased-in program in 2008	$1.2 billion
Total benefits in 2050	$25.3 billion
Costs in 2050	$2.9 billion
Ratio of total benefits to costs in 2050	8.8 to 1
When the program would begin to pay for itself in budget benefits alone	16 years
Budget benefits in 2050	$6.2 billion
Ratio of budget benefits alone to costs in 2050	2.14 to 1
Total increased compensation (wages & benefits) in 2050	$14 billion
Savings to individuals from crime reduction in 2050	$5.2 billion

TARGETED PROGRAM COSTS & BENEFITS IN OHIO

When the program would begin to pay for itself	4 years
Annual cost of fully phased-in program in 2008	$190 million
Total benefits in 2050	$9.6 billion
Costs in 2050	$573 million
Ratio of total benefits to costs in 2050	16.7 to 1
When the program would begin to pay for itself in budget benefits alone	7 years
Budget benefits in 2050	$2.5 billion
Ratio of budget benefits alone to costs in 2050	4.32 to 1
Total increased compensation (wages & benefits) in 2050	$4.7 billion
Savings to individuals from crime reduction in 2050	$2.4 billion

Figure 1. Projected costs and benefits of high-quality pre-kindergarten programs and their positive impact over time on federal and state budgets, crime costs, and the earnings of pre-K participating children and adults. Universal refers to a voluntary, high-quality pre-K program serving all 3- and 4-year-old children; targeted refers to a similar program serving 3- and 4-year-olds from families in the lowest quarter of the income distribution.