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National Center for Infants, Toddlers, and Families

A PROVEN RETURN ON INVESTMENT: ECONOMISTS AND THE BUSINESS COMMUNITY ADVANCE A BIRTH TO FIVE POLICY AGENDA

"More private sector leaders, economists, and policy-makers are recognizing that if we do not get child development and education right, it will hurt our long-term prosperity. That's because the strength of our labor force is a key to economic growth and fiscal sustainability."

Robert H. Duggar, Partnership for America's Economic Success

In the world of finance, professionals strive to yield the highest rate of return on their investment, while at the same time minimizing their financial risk. When you think about it, investing in our children's first years fits this key investment principle quite well. Both scientists and economists now agree that investing in early childhood is a critical and proven strategy to ensuring our nation's future economic success. Business leaders can invest in early childhood opportunities for young children to create a stable, educated workforce fueled by people who prioritize good health, strong families, and positive early learning experiences.

Currently, local municipalities, states, and the federal government are struggling with ballooning costs and declining tax revenue because of the current recession. Investing in our most vulnerable population – infants and toddlers – may take the back seat to more immediate needs, but this could be costly. Instead, if we make investments in early learning now, we can ensure that infants, toddlers, and their families reap the immediate benefits of healthy development, and can ultimately contribute to the future strength of our labor force and the success of our country.

This article shines a light on the economic benefits of investing in the earliest years and provides a state example which demonstrates it in action. It concludes with tips and strategies for how your state and/or community can work with business leaders and economists to establish similar investments for infants, toddlers, and their families.

The Economic Argument for Early Childhood Investments

James Heckman, a Nobel Memorial Prize winner in Economics, proposes investing in early childhood programs because it provides the answer to global competitiveness, better health and education outcomes, and less crime and poverty.

Through analysis of long-running early childhood education pilot programs, including the Perry Preschool project and Abecedarian Preschool Study, Professor Heckman demonstrates that investing in early childhood development builds the human capital we need for economic success as a nation. Heckman found that early nurturing, learning experiences, and physical health from ages zero to five greatly impact success or failure in society. Further, his work shows that prevention through early childhood development is more effective than remediation. “Soft social skills,” including attentiveness, persistence, and impulse control, are skills learned in high quality early childhood education programs, and they promote citizenship skills that benefit society. Professor Heckman’s research demonstrates from an economic perspective that these skills ultimately shape a young person’s IQ, as well as personal and social productivity.[1]

Researchers Leonard N. Masse and Steven Barnett conducted a benefit analysis of the Carolina Abecedarian Preschool Study and categorized benefits to include 1) earnings and fringe benefits of participants, 2) earnings and fringe benefits of future generations, 3) maternal employment and earnings 4) elementary and secondary education cost savings 5) improved health 6) higher education costs and 7) welfare use. Results of this analysis indicate that, “the effects of program participation on educational attainment, productivity, and earnings of at risk children result in an improvement in overall society equity.”[2]

For Robert Duggar, Advisory Board Chair of the Partnership for America’s Economic Success (PAES), an investment in what he calls the “youth human capital sector” will yield major social returns for America. Duggar, a financial leader who also serves as the Managing Director of Tudor Investment Corporation, estimates that 10% of our Gross Domestic Product (GDP) is directly related to a child’s growth from 0-18 years old. This sector comprises education companies, pediatricians, toy companies and children’s food manufacturers, among others.

Based on Masse and Barnett’s research, Duggar advocates that every $1 spent on high-quality early childhood programs for disadvantaged children creates $7 to $9 in future savings to the communities and states that do the investing.[3] His argument is supported by a study of the Elmira Prenatal/Early Infancy Project, which found that for high-risk groups of children enrolled in the Project, there was a $6.92 return for every $1 invested.[4] In household terms, this $1 investment could eventually buy 1 ½ gallons of milk, or two boxes of Cheerios for a growing family.

A Closer Look at Investing in the Early Years: Minnesota’s Early Childhood Investments Support Economic Development

Minnesota Vikings fans were not too happy when, in 2003, Minneapolis Federal Reserve Chairman Art Rolnick and associate Rob Grunewald wrote an article that argued that investing in children rather than sports stadiums made the most economic sense. Yet, the article was groundbreaking because it proposed private investment for public good. Rolnick claimed that supporting early childhood programs was not simply paying for social services, but it was an effective economic development strategy for a state whose academic and financial progress was slowly declining.

Under Rolnick’s leadership, and the initiative of many corporate leaders, the Minnesota Early Learning Foundation (MELF) was formed. Supported by $20 million in private funding, MELF’s mission is to recommend cost-effective strategies to prepare children for success in kindergarten and beyond. It does this through the St. Paul Early Childhood Scholarship Program, which provides parents the resources to help them select, pay for, and stay involved in high quality early childhood education programs. This program, launched in 2008, is a four-year pilot that will serve 640 kids in four cohorts. To enroll, families must have an annual income of less than 185% of the Federal Poverty Guideline, or about $38,000 for a family of four. At age 3, participating children receive a 2-year scholarship to pay for full or part-time, center or family-based early childhood education services.

"This is a long-term investment in our young people, our communities, and our economy," Policy Director Laurie Davis explained. To this end, MELF's evaluation partners developed a model for measuring the school readiness of children at various stages and across a variety of domains, and at the end of MELF's funded pilot programs, they aim to uncover to what extent low-income children in MELF-funded projects are on a developmental trajectory towards school readiness or ready for school as measured by a range of child assessment tools.[5] "We are not a service provider," Davis stresses, as MELF does not create the programs for early childhood education, but rather, provides parents and participants with ratings of program quality and the financial resources to access those programs.

MELF's pilot quality rating and improvement system, Parent Aware, uses standardized, evidence-based measures to rate the quality of early learning programs. It also provides support to providers to improve program quality and thus increase their ratings. Parent Aware is unique among quality rating and improvement systems with its clear focus on parents and a strong evaluation exploring the relationship between ratings and child outcomes. Davis pointed out that Parent Aware can be used by anyone, benefiting all parents, not just families enrolled in MELF's pilot programs.

Davis suggests advocates who wish to launch something similar should show "clear ways for corporations to be strategically invested, other than just supporting programs." The MELF program does this by evaluating programs and being extremely transparent with its findings. Another important strategy for business leaders is an exit strategy for the pilot. MELF will "dissolve" in 2011, at which point, MELF leaders will be involved in the policy discussion to determine next steps for the initiative in Minnesota.

Tips and Strategies for Establishing a Proven Investment in Your State/Community:

1. **Approach business leaders with an emphasis on how investing in early childhood programs provides dual benefits to the state**: immediate gains for the child and family, as well as long-term workforce development that will benefit their company. In recent years, Minnesota's national educational ranking has dropped, as has its business development, but there is a proud tradition of corporate and family philanthropy, as well as high quality public education and a skilled workforce. Improving economic and workforce development are issues that resonated with Minnesota's Fortune 500 CEOs and helped to launch MELF.

2. **Join community or civic organizations**, such as your local Chamber of Commerce, Kiwanis, or Rotary Club. This tip, provided by the Partnership for America's Economic Success, enables early childhood advocates to share

information about the importance of early childhood to the economy and to network with people who can be new, influential voices for children's programs.[6]

3. **Work to make your information available in terms that speak to multiple constituencies.** Remember that acronyms, affiliations, and best practices in the early childhood field may be foreign to your audience. In order to promote collaboration and buy-in, ask a business-savvy colleague for input on how to pitch to a business audience.

4. **If advocating for a specific program, clearly articulate to potential donors how their investment will be used.** More than ever, donors want to know how much of their money is spent on administrative costs, as well as the program's long-term sustainability.

5. **Be willing to eliminate or pare down non-essentials in your program model.** MELF was reluctant to cut its parent mentoring piece, but due to gaps in funding, it had no choice but to eliminate it. In these rough economic times, ensure you are focusing your efforts and resources solely on the most important aspects of your program model.

6. **Develop an exit strategy.** Not all pilot programs must exist in perpetuity, and in creating this plan from the start, you can keep focused on the objectives this initiative seeks to achieve.

The current economic crisis, though challenging in many ways, is creating a new reality with new opportunities for America. Mutual investment for our common good is a shift in our strategy for success. As partners, advocates in the business and early childhood sectors are ensuring larger gains than an individual investment could yield alone. And on the horizon? When we invest in kids together, we are building a stronger, sustainable, successful future for America.

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[1] James Heckman, "Heckman Equation." PowerPoint presentation, James Heckman, 2009, http://www.heckmanequation.org/.
[2] Masse, L.N., & Barnett, W.S., *A Benefit Cost Analysis of the Abecedarian Early Childhood Intervention*. New Brunswick, NJ: National Institute for Early Education Research, 2002. The Abecedarian Project research was originally conducted by Craig Ramey, with follow-up analyses at ages 15 and 21 by Frances A. Campbell, University of North Carolina.
[3] Robert Duggar, "Investing in early-childhood programs would yield dividends for Ohio." *Cleveland.com*, June 14, 2009, www.Cleveland.com.
[4] D.L. Olds, C.R. Henderson, C. Phelps, H. Kitzman, C. Hanks. *Effect of Prenatal and Infancy Nurse Home Visitation on Government Spending*. 1993. Medical Care Vol. 31 (2). Pp. 155-174.
[5] Minnesota Early Learning Foundation, "Our Learnings." 2009, www.melf.us/index.asp?Type=B_BASIC&SEC={25517E93-1579-44CF-8F8D-9B8C36C76B08}.
[6] Partnership for America's Economic Success, "What Business Leaders Can Do." www.partnershipforsuccess.org/index.php?id=44&MenuSect=8