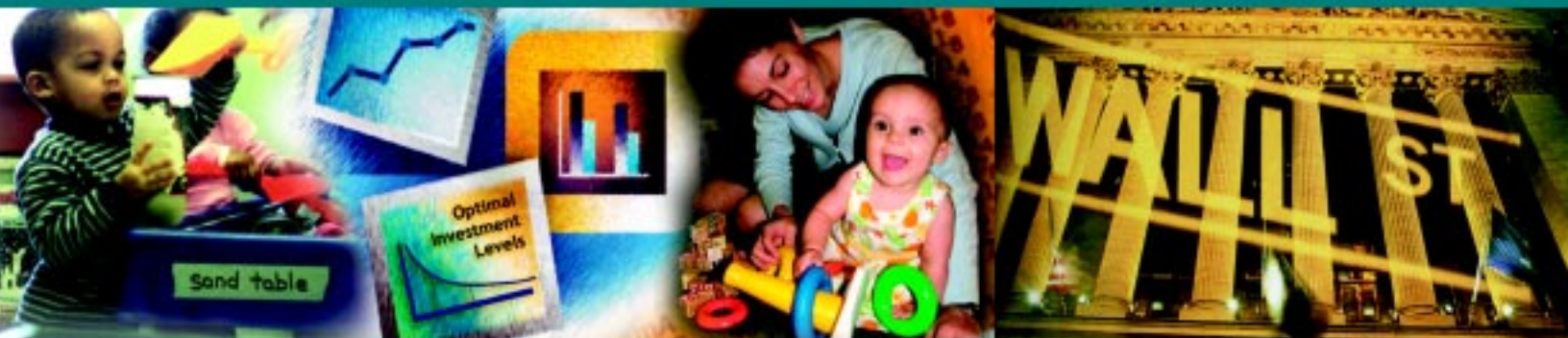


Early Child Development *Is* Economic Development



The Issue at a Glance...

Traditional economic development strategies are a high-risk proposition, often with a low public return on investment. By contrast, one of the most productive economic development investments is early child development (ECD). Investments in ECD have been shown to produce returns as high as 16 percent, or 12 percent when adjusted for inflation. But the big payoffs for ECD only happen when the quality is high. For West Virginia to take full advantage of the economic benefits, the state must make a significant investment in improving the quality of its ECD programs.

What is Early Child Development (ECD)?

For the purposes of this report, ECD includes all formal full-day and part-day early care and education programs, such as Head Start, pre-Kindergarten, preschools, family child care homes and child care centers.

The Marshall University Study

The Marshall University Center for Business and Economic Research has completed a comprehensive study of the economic impact of ECD programs in West Virginia. According to the report's authors, there is continuing and growing literature confirming the positive short- and long-term benefits to economic development of ECD. These studies confirm that a substantial commitment to high-quality ECD programs in West Virginia will be a very positive factor influencing the future economic development of the state, ***probably more important than any other effort currently under way***. The positive economic development returns garnered from K-12 education have been well documented, but the Marshall study goes one step further. It says that investments in ***early child development*** may well be the more important expenditure for relating education to economic growth.

The key findings of the Marshall report are:

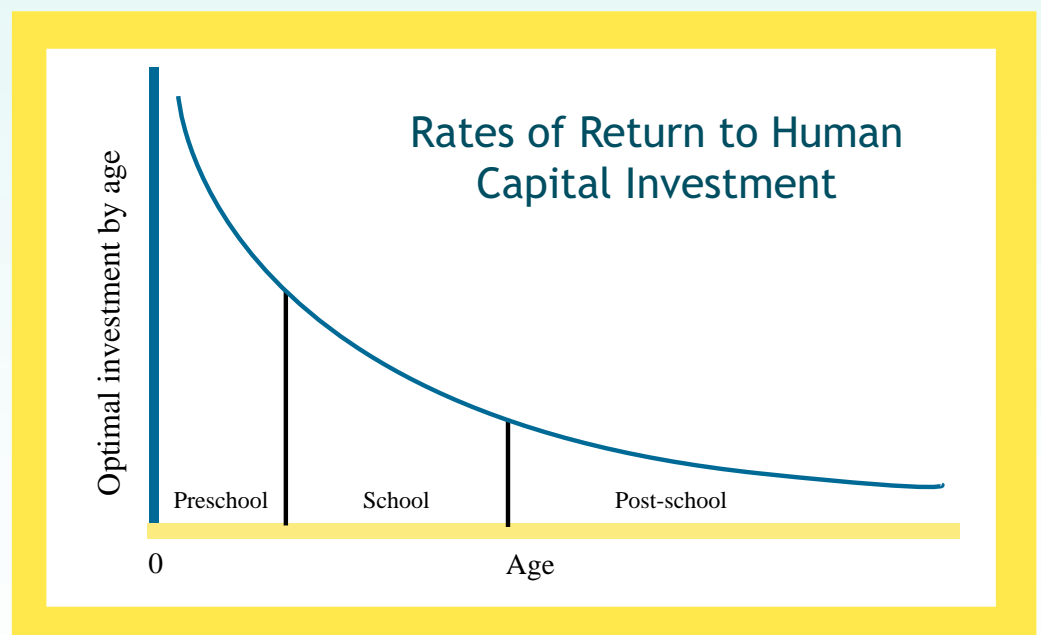
- Early child development produces returns on public investment in excess of returns on other economic development programs.
- Early child development is a major industry, which employs thousands of West Virginians and creates millions of dollars in economic output.
- Early child development frees parents to work, thus increasing family income.
- Early child development that is of high-quality benefits children by increasing their capacity to become more productive workers and citizens.

...research confirms that dollars spent on early child development have very high rates of return. Further, the returns on investments at other stages of the life cycle produce dramatically lower returns for each dollar spent.

Return on Investment

According to Marshall's researchers, West Virginia could expect a \$5.20 return for every dollar invested in ECD, using even the most conservative economic models. By any measure, that's a handsome return on public investment. Marshall's findings are supported by the work of a growing number of nationally-recognized economists, including Art Rolnick and Rob Grunewald of the Minneapolis Federal Reserve Bank. After assessing several longitudinal studies of the impact of high-quality ECD programs, Rolnick and Grunewald concluded that investments in ECD were more productive than traditional economic development incentives. They said, "Around the country, billions of public dollars are spent each year to subsidize private companies so that they will either relocate or expand their businesses in hometown markets. Recent studies of this approach to economic development, however, make clear that the so-called economic bidding war among the state and local governments is actually counterproductive.... One of the most productive investments that is rarely viewed as economic development is early childhood development."

James Heckman, a Nobel Prize-winning economist, is also a major proponent of investments in ECD. His research confirms that dollars spent on ECD have very high rates of return. Further, the returns on investments at other stages of the life cycle produce dramatically lower returns for each dollar spent, as shown in the diagram below. According to Heckman, "The most efficient and effective public policy is to emphasize early childhood education spending as a way to spur economic development." The diagram below illustrates Heckman's argument that society's investments in the preschool years yield the highest returns.



Quality Matters

Researchers agree that the key to achieving a big payoff for investments in early child development is high quality. Why? Because children enrolled in high-quality programs perform significantly better than those in low-quality programs. The quality of ECD is a strong predictor of a child's cognitive and language development and future economic success.

So, what is high-quality ECD? Quality development includes low child/adult ratios; well-educated, adequately compensated caregivers with relevant experience; small to medium-size classes; physical environments that are safe, clean and stimulating; established standards for care and education; consistent monitoring of standards achievement; child-directed, developmentally appropriate practices; and high levels of parental involvement.

The benefits of high-quality ECD are well-documented. Several longitudinal studies of high-quality ECD programs have demonstrated significant positive results, both for children and society at large. They include:

For society:

- Less grade retention
- Lower welfare expenditures
- Lower crime
- More income and jobs from the ECD industry

For parents:

- Enhanced ability to enter the workforce
- Higher incomes and standards of living

For employers:

- Less absenteeism
- Lower employee turnover
- Higher worker productivity

For children:

- Higher likelihood of completing high school and attending college
 - Higher paying jobs
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Unfortunately, little is known about the quality of West Virginia's ECD programs. The scant evidence that exists suggests that the quality is mediocre at best. Assessing and improving the quality of ECD programs in West Virginia will require significant new investment, but, as the Marshall study and others have demonstrated, the payoffs will also be significant.

The quality of early child development is a strong predictor of a child's cognitive and language development and future economic success.

The Current Impact of the Child Day Care Services Industry (CDCS)

According to the Marshall study, the role of Child Day Care Services in West Virginia's current economy is significant. The total direct impact of CDCS establishments in West Virginia includes gross receipts of \$101.6 million, payroll of \$65 million, and 7,153 jobs. In addition, CDCS has an employment multiplier of 1.26, which means,

for each person employed in CDCS, 0.26 new jobs are created. The output multiplier, which

estimates the total sales that CDCS spending creates, is 1.49. Or, for every dollar spent on CDCS, another 49 cents in output is generated in the state. When the multipliers are applied to direct levels of spending and employment, the total impact of CDCS is \$152 million in output, \$79 million in income and 7,798 jobs.

The Marshall study also found that 28,325 families in West Virginia would not have one or more workers in the labor force if early child development programs were not available. By allowing adults to participate in the state's economy, the state's total income increases by \$1.2 billion. This figure equals between 2 and 2.5 percent of the 2003 gross state product. The Marshall researchers said that increasing the availability of ECD in West Virginia would have an even greater positive effect on the state's economic growth.

For every dollar spent on CDCS another 49 cents in output is generated in the

As part of its economic impact study, Marshall surveyed licensed child care providers in West Virginia. According to the survey, the typical licensed child care facility:

- Has been in operation for 10 years
- Is as likely to be nonprofit as it is for-profit
- Charges between \$18 and \$22 a day
- Has increased charges in the last two years by more than \$5 a week
- Relies on charges to parents as their major source of income
- Employs 5 teachers and 3 aides
- Pays relatively low wages for all classes of employees
- Experiences problems with staff turnover

The Challenges Ahead

Without adequate investment of public and private dollars, West Virginia's children will not get the foundation they need for success in school and in life. And, without adequate investment, West Virginia will not reap the tremendous economic benefits of a high-quality early child development system.

Recommended Next Steps

There are some important steps that can be taken now to improve the quality of ECD programs and ensure the highest economic return on our investment:

- Get the business community directly involved in assuring the quality of ECD programs;
- Invest more public and private resources in ECD; and
- Include ECD as a key component in the state's economic development strategy.

For further information about the economic benefits of high-quality early child development programs, contact: