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Most everybody agrees that spending money on education is a good thing.

But the "good" that education produces remains abstract enough to citizens and politicians that school spending often takes a back seat to more concrete projects, whether they're roads or sports stadiums or tax incentives designed to directly bring new jobs to a community.

# Better Than the Stock Market: The Best Economic-Development Investment Is Early-Childhood Education

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Rob Grunewald, an associate economist at the Federal Reserve Bank of Minneapolis, used to be one of those people who thought that education was important in a vague, general sense. "Invest in your schools. Invest in your colleges and universities, your workforce-training programs, and there you go," he told an audience at the Bettendorf Public Library last week. "You can all go home."

That attitude is fundamentally dismissive, a statement of the obvious.

Then, about five years ago, Grunewald started reading research on the costs and benefits of early-childhood education - pre-kindergarten programs designed to prepare children for school. Based on the research, Grunewald and Art Rolnick - the senior vice president and director of research at the bank - began advocating for increased public and private spending for early-childhood education.

As an economic-development tool.

At the Bettendorf Public Library, in a program sponsored by the Bettendorf Chamber of Commerce titled "The Business Case for Early Childhood Education & Care," Grunewald made some startling assertions:

- Early-childhood education can provide a return on investment greater than the stock market.
- Federal, state, and local governments would be wise to scrap their business-incentive programs in favor of early-childhood education.
- We can expect a better return on investment from early-childhood education than any other type of education.

"On the margin," Grunewald said, "if we're going to invest the next dollar in

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education and workforce development, we're going to see the highest return if that dollar's invested before children reach kindergarten.&quot;

## The Three-Year-Old CEO

The research that Grunewald and his colleague cite is not new. What's different is the way that it's being deployed. It's not just education. It's *long-term workforce development*.

The big picture is that many experts expect a shortage of skilled laborers in the coming decades as Baby Boomers retire. Jim Collins, president of the John Deere Foundation, told the audience in his introduction that half of the Deere & Company workforce has more than 25 years of service.

As a result of an aging population, the size and qualifications of a community's labor force will be major factors in many business-location decisions in the near future. And if workforce development doesn't quite start in the cradle, it can begin pretty soon thereafter. &quot;If we think about how to invest in our workforce going forward,&quot; Grunewald said, &quot;this [early-childhood education] is where we can find our edge in economic development.&quot;

Grunewald makes a case for early-childhood education as an investment no different from putting money in bonds. Spending money on early-childhood education, he said, pays financial dividends.

The four studies Grunewald and Rolnick reference merely show that early-childhood education programs are effective. The studies show, for example, that at-risk populations that receive early-childhood education are more likely to graduate from high-school on time and are less likely to require special education than at-risk populations without an early-childhood-education program.

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Those outcomes are not surprising and might even be intuitive. But the benefits keep going. Program groups are more likely to attend a four-year college, they're more likely to own their own homes, they earn more money, they are more likely to have a savings account, they have fewer arrests, they're healthier, and they spend less time in prison.

And here we get into the *economic* case for early-childhood programs. A study of one program, Grunewald said, estimated that each dollar invested in the program returned \$17 over the course of 62 years. Some of that went to the program participants in the form of higher earnings, but a vast majority of the return came back to the public in the form of lower government costs (for special education, incarceration, and welfare, for instance) and higher tax revenues (from higher earnings).

The annual rate of return to the public sector? Sixteen percent, far more than a return of 5 to 7 percent one might expect in the stock market. Overall, Grunewald said, studies of early-childhood education have shown annual rates of return in the range of 7 percent to 22 percent.

In other words, spending money in early education is a good investment, period, beyond the intrinsic value of education.

The return is so high, Grunewald said, because of how critical the early years are in development. "By the age of three or four, 85 percent of the architecture of the young brain is formed," he said.

And from ages three to five, the "executive function" of the brain is developed, he said: "This is the ability to regulate emotion, to be motivated to take on a task. ... Our CEOs are developed in this age of developing executive function."

The result is that while investments in primary, secondary, and higher education remain important, they can't come close to the positive impact of pre-kindergarten programs. "When children reach kindergarten, where they are relative to their peers is where they tend to stay," Grunewald said.

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It's important to note that these studies looked at programs serving at-risk populations. Grunewald said that the most prudent course would be to provide access to early-childhood services for low-income families first - such as those on Head Start waiting lists - because that's where the highest return on investment will be.

A universal pre-kindergarten program, he said, would have a diminishing rate of return as it reaches higher levels of family income; some of those families are already paying for early-childhood education themselves. "Universal programs do help all kids," Grunewald said in an interview, but the incremental improvement is lower outside of at-risk populations.

The results also can't be applied to *all* early-childhood programs. Grunewald said the research supports programs with well-trained instructors, with high levels of parental involvement, and that teach both cognitive and social skills.

"We understand the scope of the issue in terms of early development," Grunewald said. "We also understand from research what is effective. ... The question ... as we move forward to build this out to scale, so that all children who need these programs have access, [is]: How can we leverage these dollars on a large scale?"

## A Matter of Priorities

Grunewald began his talk in Bettendorf by noting that the United States spends \$50 billion a year on business incentives. (The estimate comes from the 2004 article "The Failures of Economic Development Incentives," by Alan Peters and Peter Fisher. The article can be found at <http://www.planning.org/japa/pdf/04winterecondev.pdf>.)

In many cases, those subsidies are the result of a bidding war between states or municipalities. As Rolnick and Grunewald wrote in a 2003 article: "From a national perspective, jobs are not created - they are only relocated. From a state and local perspective,

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the economic gains are suspect because many would have been realized without the subsidies. In summary, what often passes for economic development and sound public investment is neither.&quot;

Grunewald isn't suggesting that this situation can be easily corrected. Congress could, under its authority to regulate interstate commerce, tax business incentives at 100 percent, he said, making them meaningless, but that's not likely. &quot;This is the lay of the land,&quot; he said. &quot;But it does propose an interesting question ... : If we have \$50 billion of public resources, how do we allocate those resources in the name of economic development?&quot;

Across-the-board tax cuts for business would be one reasonable response, he said. Another would be spending money on early-childhood education.

Grunewald does not favor a universal program. And he said that he prefers a private-sector approach rather than incorporating early-childhood education into the public-school system.

&quot;The infrastructure itself in early education is currently not in the school systems,&quot; he said. &quot;It's more of a market-based system. So to leverage that infrastructure, we'd argue that you keep the school system at the table ... but let's find a way to use that whole infrastructure.&quot;

The money could come from public and private sources, and Grunewald's approach is clearly designed to appeal to the business community, to help companies understand that helping provide access to quality early-childhood education could be an act of self-interest rather than charity. And at this point, he said, the key is to improve awareness of the benefits of early-childhood education among policymakers and business leaders.

In the long run, early-childhood-education programs will return public and private investment, Grunewald said. But in the short run, they need start-up cash.

A public-private partnership could provide early-childhood-education scholarships to low-income families, while the state could provide an incentive framework to improve

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early-childhood care.

Grunewald and Rolnick estimated that in Minnesota, providing the state's 20,000 three- and four-year-olds who live below the poverty line with early-childhood education would cost \$190 million a year. The annual cost of the program could be covered with existing expenditures on early-childhood programs and the income from a \$1.5-billion endowment.

Grunewald put that in concrete terms - literally. He said the initial funding of the endowment would cost the equivalent of building two professional sports stadiums.

According to U.S. Census Bureau estimates for 2005, nearly 7,000 children under five years old in the Quad Cities Metropolitan Statistical Area live below the poverty line. That would put the annual cost of a comparable early-childhood program at \$60 million in the Quad Cities.

Finding the money is simply a matter of priorities. Which is more likely to provide meaningful economic development: a sports stadium, business incentives, or money for early-childhood education?

"It is an investment up-front," Grunewald said. "You have to pay now."

To listen to or download Grunewald's presentation, visit ( <http://www.qcspan.com> ).

For more information on the issue of early-childhood education from the Federal Reserve

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*Bank of Minneapolis, visit ( <http://www.minneapolisfed.org/research/studies/earlychild/> ).*