

# The Joint Economic Committee ECONOMIC FACT SHEET

Chairman, Senator Charles Schumer  
Vice Chair, Congresswoman Carolyn Maloney

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## The Economic Benefits of Investing in High-Quality Preschool Education

Future fiscal challenges, global economic competition, and shifting demographic trends all highlight the need for policies to improve the skills and productivity of American workers and thereby increase future living standards. A promising strategy for achieving these aims is expanding government investment in high-quality preschool education. Government funding of education in general has long been justified on the grounds of the significant public good that comes of having an educated population. Reliable evaluations of high-quality preschool have shown that this argument extends to preschool specifically.

High-quality preschool programs improve the futures of participants by raising their ultimate educational attainment and earnings levels and by reducing the likelihood that they will engage in socially harmful behaviors. These outcomes in turn ease the burden on public resources, allowing gov-

ernment spending to shift toward more productive uses. As much as 80 percent of the projected benefit of high-quality preschool for disadvantaged children goes to the public.<sup>1</sup> In the long term, investing in high-quality preschool available to all children has been estimated to increase gross domestic product by as much as 3.5 percent, further enhancing U.S. living standards.<sup>2</sup>

### THE CURRENT LEVEL OF INVESTMENT IS INADEQUATE

The current federal role in preschool education is limited and participation in preschool, particularly among 3-year-olds, is far from universal. The federal government's largest commitment to preschool education is through the Head Start program which provides comprehensive services to preschoolers from poor families. Its current level of funding is sufficient to serve less than half of the eligible population.<sup>3</sup> Some states have established publicly-funded preschool programs to supplement Head Start, but quality standards and coverage vary considerably.<sup>4</sup> More public investment is necessary to reach the two-thirds of 3-year-olds and 30 percent of 4-year-olds who are involved in no formal preschool programs.<sup>5</sup>

### HIGH-QUALITY PRESCHOOL SIGNIFICANTLY IMPROVES CHILDREN'S OUTCOMES

Children benefit substantially from high-quality preschool. Children who participate in high-quality preschools are more likely than their peers to graduate from high school and enroll in college. In addition, they are less likely to be in special education classes, become pregnant, engage in criminal activity as teenagers, or pursue other risky behaviors like smoking. The improved outcomes extend into adulthood, with higher earnings and employment rates, lower crime rates, and less reliance on public assistance compared with their peers.<sup>6</sup> As an example, **Table 1** shows

**Table 1: High Quality Preschool Improves Student Outcomes**

Percentage difference between Perry Preschool participants and comparison group in selected outcomes

	Percent difference from comparison group
<b>High School Completion</b>	44%
<b>Special Education Placement</b>	-26%
<b>Employment</b>	23%
<b>Incarceration</b>	-46%
<b>Reliance on Welfare</b>	-17%

Sources: Committee for Economic Development, Table 1 and Pre-K Now, Table 2.

the magnitude of some of these effects from one well-known program, High Scope/Perry Preschool, that targeted at-risk preschoolers and followed their progress well into adulthood. A broader program would have smaller effects but would still have a significant positive impact on children’s outcomes.

Researchers find that high-quality preschool programs set the foundation for better performance later in life by improving not only children’s cognitive skills but also their non-cognitive skills such as perseverance and motivation. These non-cognitive skills enhance their lifelong ability to learn. Nobel Laureate James Heckman has highlighted the dynamic nature of the skill acquisition process, with early learning and skill development enabling and enhancing later learning.<sup>7</sup>

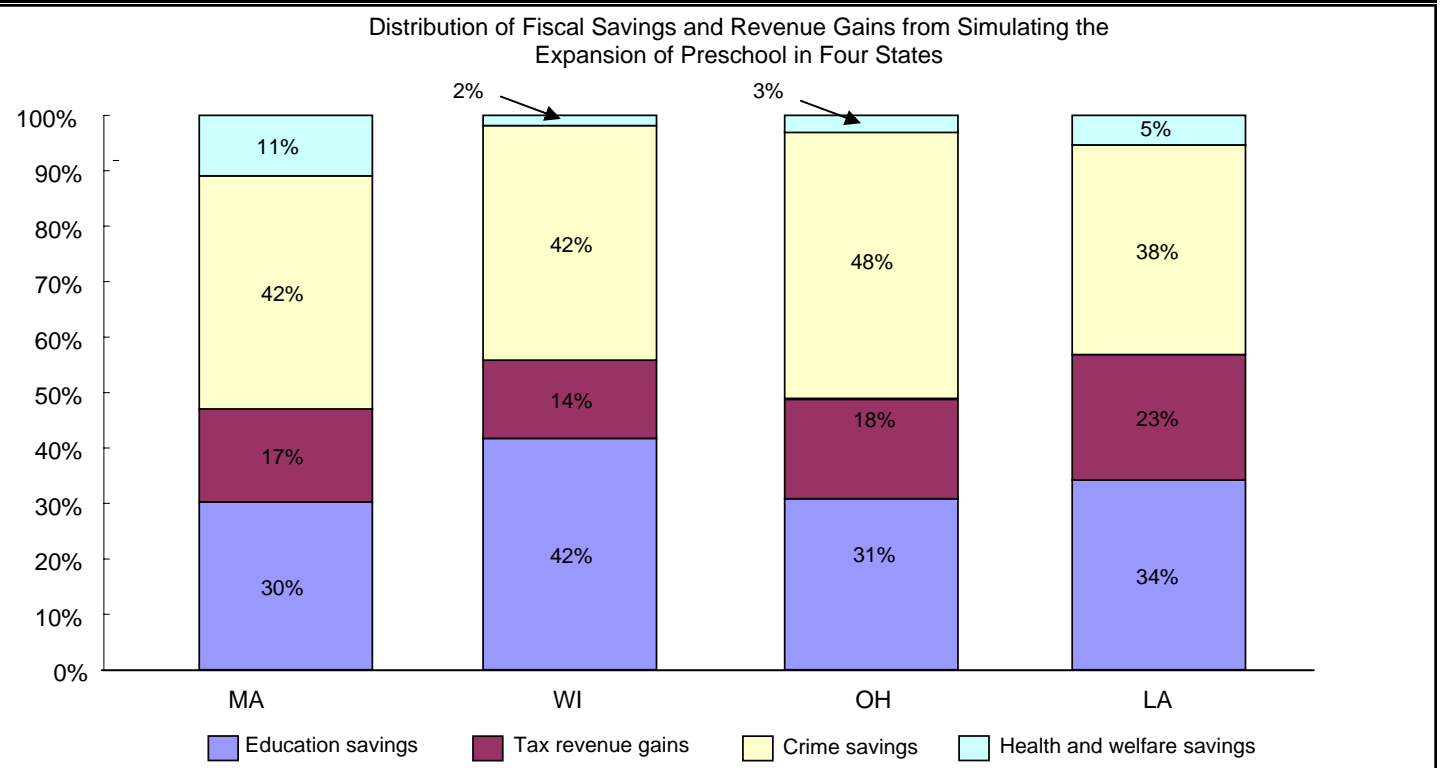
**SUCCESSFUL CHILDREN HAVE A POSITIVE IMPACT ON FEDERAL AND STATE BUDGETS**

High-quality preschool programs can improve the government’s finances by increasing revenues and decreasing

spending. The higher earnings and employment rates of participants translate into higher government tax revenues and less spending on public assistance programs. Participants’ improved cognitive and non-cognitive skills result in less spending on special education and other remedial programs and improved retention of teachers. Lower crime rates lead to less spending on prosecutions and incarcerations. The savings can be put to other, more productive uses or could be used to lower tax rates or reduce government debt.

Simulations of preschool expansions in four states have yielded estimates of the revenue gains and program savings from investments in high-quality preschool.<sup>8</sup> In the long run, between 30 and 40 percent of the state fiscal benefits would come from school system cost savings, between 15 and 25 percent of the state fiscal benefits would come from increased tax revenues, and between 40 and 50 percent of the state fiscal benefits would come from criminal justice savings. (See **Chart 1.**)

**Chart 1: Most of the State Fiscal Benefit from High-Quality Preschool Comes from Education and Crime Savings**



Source: Committee for Economic Development, The Economic Promise of Investing in High-Quality Preschool, Figure 7.

## HIGH-QUALITY PRESCHOOL STRENGTHENS THE ECONOMY

The higher educational attainment and improved non-cognitive skills like motivation and perseverance of children who attend high-quality preschools result in a more productive workforce.<sup>9</sup> Those workers are able to perform complex tasks, learn new skills and adapt to changes quickly, and generate ideas for how to make improvements to the productivity of the workplace. With a skilled workforce, employers are able to adopt innovative production processes that could further increase productivity.<sup>10</sup>

Increasing productivity is a key factor in achieving higher economic growth and living standards, particularly as the workforce shrinks with the retirement of the Baby Boom generation. Greater output per worker translates directly into a higher gross domestic product (GDP) and, over the long run, into greater prosperity as workers' incomes rise. Businesses become more profitable as a result of higher productivity, and can use these profits to increase workers' wages and to increase investment, which can translate into a greater number of jobs.

Studies show a significant positive effect on future economic growth. One study of the effect of a universal preschool program estimates that GDP would be 3.5 percent higher by 2080 as a result of the program, while another concludes that the long run improvement in GDP would be 1.9 percent.<sup>11</sup>

## CONCLUSION

Investing in high-quality preschool is a cost-effective method for improving the life circumstances of children, particularly those who are currently most at-risk of failing in school and engaging in destructive behaviors. The economy as a whole will benefit from the resulting increases in productivity and growth.

## ENDNOTES

<sup>1</sup> Art Rolnick and Rob Grunewald, "Early Childhood Development: Economic Development with a High Public Return," *FedGazette*, Federal Reserve Bank of Minneapolis, March 2003 and James. J. Heckman and Dimitriy V. Masterov, "The Productivity Argument for Investing in Young Children," Working Paper 5, Invest in Kids Working Group, Committee for Economic Development, October 4, 2004, Table 8

<sup>2</sup> William T. Dickens, Isabel Sawhill, and Jeffrey Tebbs, "The Effects of Investing in Early Education on Economic Growth," The Brookings Institution, Policy Brief #153, April 2006, Table 1 and Timothy J. Bartik, "The Economic Development Benefits of Universal Preschool Education Compared to Traditional Economic Development Programs," May 5, 2006.

<sup>3</sup> W. Steven Barnett, Jason T. Hustedt, Laura E. Hawkinson, and Kenneth B. Robin, *The State of Preschool 2006*, National Institute of Early Education Research, 2006, p.28.

<sup>4</sup> *Ibid.*, p.7.

<sup>5</sup> *Ibid.*, p.5.

<sup>6</sup> Committee for Economic Development, *The Economic Promise of Investing in High-Quality Preschool*, 2006, pp. 20-22 and Table 1 and Pre-K Now, *Dollars and Sense: A Review of Economic Analyses of Pre-K*, May 2007, Table 2.

<sup>7</sup> James J. Heckman, "Investing in Disadvantaged Young Children is an Economically Efficient Policy," paper presented at the Committee for Economic Development forum on "Building the Economic Case for Investments in Preschool," New York, January 10, 2006.

<sup>8</sup> The four states are Louisiana, Massachusetts, Ohio and Wisconsin.

<sup>9</sup> Heckman and Masterov.

<sup>10</sup> Dickens, *et al.*, p.3.

<sup>11</sup> Dickens, *et al.*, Table 1 and Bartik.