

The best investment: America's kids [US] ^[1]

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Source: Business Week

Format: Article

Publication Date: 22 Nov 2002

AVAILABILITY

See text below.

EXCERPTS

Tomorrow's workers will need more brains than brawn, so funding early-childhood education is vital. It's time for Uncle Sam to ante up.

The scheming laid bare by Jack Grubman's e-mail trail is fascinating, and appalling. It's a tangled, lurid tale, but, in brief, the \$20 million-a-year telecom analyst for Citigroup's (C) Salomon Smith Barney securities firm wanted his twins admitted to the 92nd Street Y nursery school, among Manhattan's most exclusive preschools. He successfully lobbied for the help of Sandy Weill, Citigroup's legendary chieftain.

The philanthropic arm of the nation's largest financial-services institution made a \$1 million donation to the Y not long after Grubman's plea. Then, Grubman abandoned his long standing skepticism about AT&T's (T) earnings prospects, a ratings upgrade that made it easier for Salomon Smith Barney to gain the telecom company's lucrative underwriting business. Everyone involved denies there were any quid pro quos involved, but no matter what, it sure looks like a sorry story of crony capitalism at work.

Of course, anyone who has lived in New York is hardly surprised. Ambitious Manhattanites will go to extraordinary lengths to get their children into the handful of prestigious private preschools widely seen as the first step toward an elite private school and then an Ivy League college.

IDEA ECONOMY.

Still, this isn't an "only in Manhattan" story. It's more a perversion of a far less alarming phenomenon: Well-heeled and well-educated parents everywhere are taking early childhood development seriously, spending enormous sums on educational toys, arts, crafts, and music, teaching babies to speak with signs, and yes, in many cases investing in the "best" preschools. Sometimes, parents lose a sense of proportion and balance. We're talking toddlers, after all. Yet the essential insight is right: The payoff from high-quality, early-childhood development programs is enormous.

American employers increasingly value an educated workforce. Ideas and skills matter more than brawn and endurance. If conservatives are serious about equality of opportunity for all citizens, rather than stacking the game for the benefit of the few, early-childhood education should become an extremely well-funded crusade. If liberals are earnest about attacking inequality, then they should realize that society's compelling interest in early-childhood education and the interests of the education establishment aren't synonymous.

Sad to say, studies suggest that as many as 40% of youngsters are entering kindergarten unprepared. Children from low-income households concentrated in the nation's major urban areas are especially at risk. Many of these youngsters never catch up during their elementary and secondary school years, eventually joining the ranks of poorly paid workers with few skills and even fewer prospects. "It won't matter if the economy grows 2% or 6% a year, this part of our society won't reach its potential if we don't give them the opportunity," says Arthur Rolnick, head of research at the Federal Reserve Bank of Minneapolis.

GROWING DIVIDENDS.

The good news is that this problem can be solved. Government should provide disadvantaged youngsters with a high-quality preschool learning environment. Economic studies suggest that the return on investment in early-childhood development is a huge 14% to 15%, after adjusting for inflation.

To put that figure in perspective, the long-term real return on U.S. stocks is 7%. The gains from early-childhood development programs include better performance in school, improved jobs and earnings prospects, and less risk of jail time. That's why resources and attention need to be targeted to the kids who are most in danger of falling behind.

The price tag is steep to provide a quality early-education program for each low-income child, most likely twice the approximately \$5,000 per child provided now by Head Start, the government-funded preschool program. For instance, the 92nd Street Y costs \$14,000 a year. But the public money is available.

"HIGH-RETURN PRODUCT."

It's really a matter of funding priorities. Farmers will receive \$182 billion in taxpayer subsidies over the next 10 years, even though the

subsidy track record for farming over the past seven decades has been dismal. Likewise, ethanol makers have gotten tax exemptions totaling more than \$7 billion over the past two decades, even though the environmental benefits of the corn-based fuel are dubious.

Rolnick, a passionate opponent of state and local government subsidies for everything from sports stadiums to businesses relocation, points out that economists routinely find zero to minuscule returns on such public spending. "Any company will invest in a high-return product, and so should government," he says.

So pick the program with the highest return. All it takes is the political courage to do what's known to work, and reallocate resources toward early-childhood education.

-Reprinted from Business Week

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