

## Iowa's Investments in a Child's First 2,000 Days

### *Early Childhood Education: Opportunities in Economic Development*

By Lily French

Iowa's approach to economic development has been badly skewed in favor of expensive subsidies aimed at short-term job gains instead of long-term investments in our economy. According to many economists, including Nobel Laureate James Heckman, the most effective investments states can make from a benefit-cost perspective are during the first 2,000 days of a child's life. These produce a better educated, more productive workforce and engaged citizenry tomorrow — the kinds of human capital factors which draw in better paying businesses and give our state a brighter future. Yet even while business tax credits have risen dramatically, state funding of early childhood education overall has remained very small and declined within specific programs. This is not a cost-effective strategy for Iowa in the long run, and it is shortchanging our children. In this brief, we explain how.

#### ***Why Invest in the First 2,000 Days?***

Research shows that the care a child receives during the first five years of life dramatically affects future educational attainment, job participation, wage acquisition, and civic engagement.

Ensuring that all children have positive experiences with their caregivers, whether that is a parent or a child care provider, from birth to age 5 enables children to enter kindergarten ready to learn.

Investments in early childhood care and education lead to a more productive workforce, a citizenry of lifelong learners and more engaged community members. Ultimately, they create our greatest resource for a brighter Iowa future.

#### ***Early Childhood as an Opportunity for Public Investments***

High-quality care and education, meaning appropriate stimulation and stable and nurturing caregiver relationships among other key elements, during the first five years have profound implications for the remainder of a person's life because of critical brain development happening during this time.

Brain development research shows that 80 percent of a child's brain develops in the first two years, with 90 percent developing by the age of 5.<sup>1</sup> As a result, experiences during the infant and toddler years that shape the architecture of the brain — including cognitive, linguistic, social and emotional capacities — lay the foundation for future learning and growth.

Early care and education has a long-term impact because it is associated with development and behavior well into adulthood. Long-term studies have found that investments in high-quality early childhood education programs result in greater school readiness, improved test scores, less grade retention or need for special education, higher graduation rates, higher employment and earnings, better health outcomes, less reliance on public assistance and lower crime rates — all of which lead to increased government revenues and reduced government expenditures.<sup>2</sup>

Economist Robert Lynch's review of the research on high-quality early childhood programs demonstrated

that investments in high-quality early childhood education not only pay for themselves, but offer annual public benefits that can exceed program costs by a ratio of 13.1 to 1<sup>3</sup> and are “an effective public policy strategy for generating wealth and achieving a multitude of social and economic development objectives.”<sup>4</sup>

The Federal Reserve Bank of Minneapolis, charged with providing analysis and insight into regional economic development, has asserted that state and local governments debating how to best use public funds to encourage economic growth should now be looking to early childhood development programs as economic development.<sup>5</sup> Their researchers, comparing a range of state investments, have concluded that early education yields a return that far exceeds the return on most public projects that are considered to be economic development.<sup>6</sup> The National Conference of State Legislatures is also distributing research by economic experts on the mounting evidence that early childhood education is a cost-effective economic development strategy.<sup>7</sup>

Starting earlier is better, when it comes to investing in the people of Iowa. Heckman, known for his research on the impact of social programs on the economy and on larger society, found that early investments in children produce greater economic returns than do investments later in life, such as on-the-job training — because they improve both cognitive and non-cognitive development.<sup>8</sup>

### ***Early Childhood Funding in Iowa***

While a variety of public programs provide support to Iowa children, three state-designed programs specifically target early care and education (ECE) for children from birth to 5 years of age throughout the state — Early Childhood Fund, School Ready Fund, and Statewide Voluntary Preschool Program.

Composed of federal money, the state-designed ***Early Childhood Fund*** awards community grants to enhance the quality and capacity of child care, through activities such as recruiting and training providers, supporting registration and licensure, and providing care for mildly ill children or for children needing second- or third-shift care. Early Childhood grants were established in 1999 with an initial allocation of \$1.6 million. Funding increased to a peak of \$7.26 million in FY04 and hovered at a comparable level until FY09. Since that time, funding for Early Childhood grants has declined nearly \$1 million, resulting in a 12 percent cut over the past three years.<sup>9</sup>

The ***School Ready Fund*** awards community grants from state general revenues to support comprehensive services for children from birth to age 5, including family support, parent education, preschool support for low-income families, quality improvement measures, and other early health and education services. School Ready grants were established in 1999 with an initial allocation of \$5.2 million. Funding peaked in FY07 and FY08 at \$38.4 million. Since that time, funding for comprehensive services through the School Ready grants has declined nearly \$16.5 million, which is a 43 percent cut over the past four years.<sup>10</sup>

***Statewide Voluntary Preschool Program*** for 4-year-olds began in 2008 with an initial allocation of \$15 million. As originally intended, funding had been rising steadily until last year when lawmakers cut investments from \$64.5 million in FY11 to \$58.4 million in FY12. This created a \$6.1 million direct loss and stopped the intended program growth. With changes to the school aid formula and restrictions in allowable

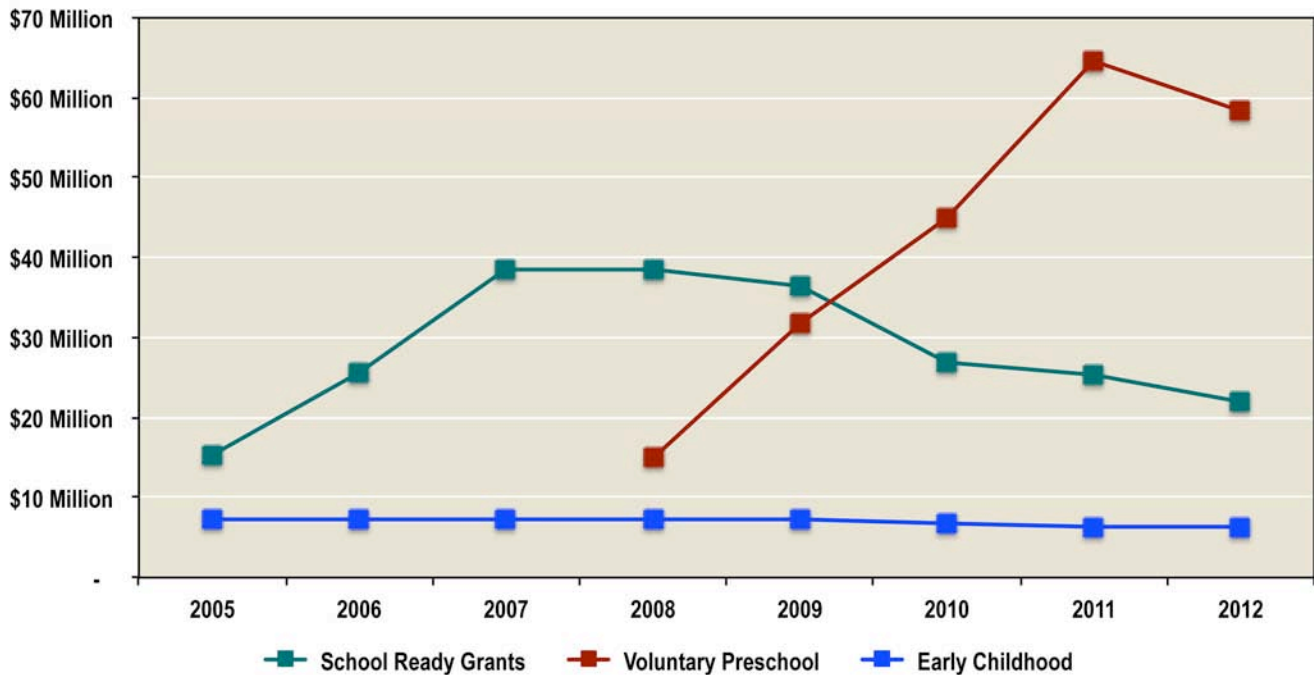
### ***Other Early Childhood Services***

This brief does not encompass all early care and education services offered in Iowa, only those that are state-designed, target children between the ages of 0 to 5, and are broadly available across the state. Not included in this analysis, but still valuable and worthy of state financial support, are federally designed programs such as Head Start/Early Head Start and Part B & C services under the Individuals with Disabilities Education Act (IDEA); programs serving children that extend beyond the age of 5, such as Child Care Assistance, *hawk-i*, and Family Development and Self-Sufficiency (FaDSS); and programs with limited geographic scope such as Shared Visions, which is available in fewer than half of Iowa counties, and Healthy Families Iowa.

growth, voluntary preschool lost the funding necessary to make the program statewide.<sup>11</sup> At the same time, Iowa’s overall investments in the education and development of young children remain small in comparison with those for school-aged children, with about 9 cents invested in infant and toddlers’ development and 27 cents invested in a preschoolers’ development for every dollar invested in a school-aged child, showing much more could be done to make cost-effective investments in young children.<sup>12</sup>

Figure 1 outlines funding changes to Iowa’s School Ready and Early Childhood Grants as well as Statewide Voluntary Preschool Program in recent years.

**Figure 1. Shifting Commitments in Iowa to Early Childhood Education, FY2005-12**



	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
<b>Early Childhood</b>	\$7,259,000	\$7,250,000	\$7,250,000	\$7,250,000	\$7,250,000	\$6,750,000	\$6,350,000	\$6,350,000
<b>School Ready</b>	\$15,334,844	\$25,634,842	\$38,434,844	\$38,434,844	\$36,461,124	\$27,000,153	\$25,287,842	\$21,999,794
<b>Voluntary Preschool</b>	\$0	\$0	\$0	\$15,000,000	\$31,800,000	\$44,900,000	\$64,500,000	\$58,400,000

***Business Tax Credits Grow as Early Childhood Investments Decline***

As funding has declined in the past four years for investments made in the Early Childhood and School Ready Funds and over the last year in Voluntary Preschool, lawmakers have continued to increase funding to a number of business tax credits. In FY05, business tax credits totaled more than \$96 million. Projections for FY13 indicate that Iowa will lose or give away more than \$220 million to businesses on the grounds of improving our state’s prosperity, but in many cases this spending has limited oversight and little or questionable evidence of impact. Figure 2 shows business tax credits grew significantly from FY05 to FY12, diverting a much larger share of dollars from the General Fund than were being allocated to School Ready grants, which declined steadily from 2007-08, and Voluntary Preschool. In comparing both the size of allocation and fiscal trends, there is considerable difference between state spending on business tax credits intended to spur economic development and early childhood education.

**Figure 2. Spending on Business Tax Credits Accelerates in Comparison to General Fund Spending on Early Childhood Services**

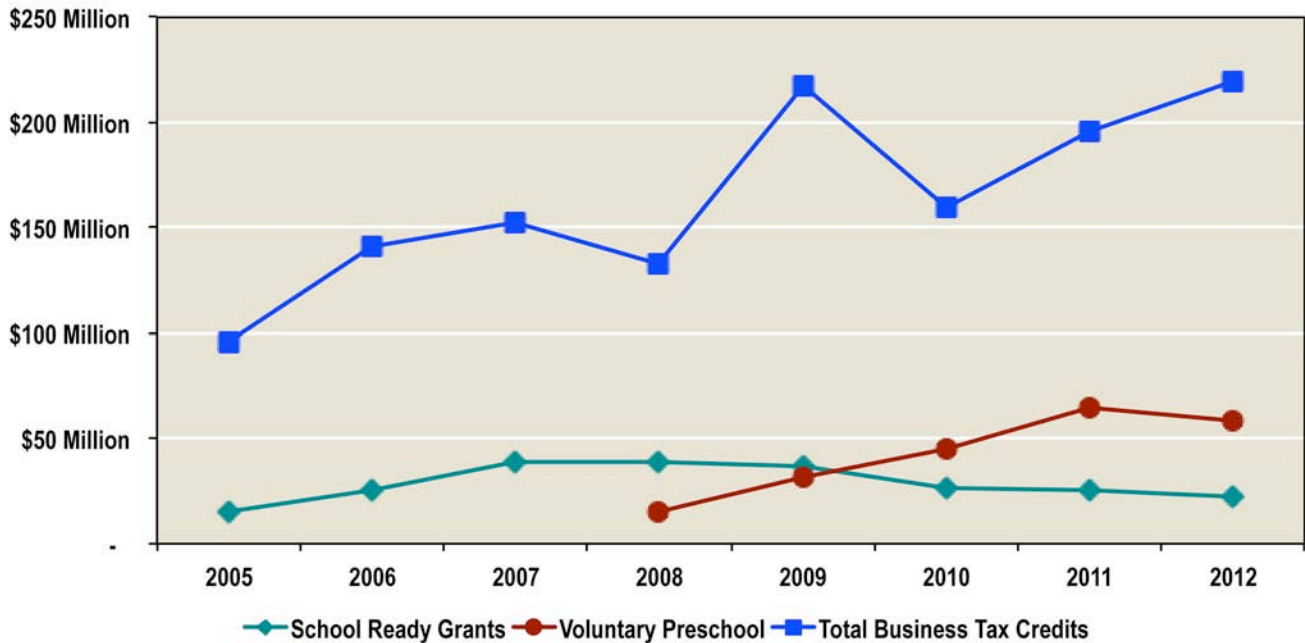


Figure 2 reflects the vast difference in scale as investments in business tax credits range from just below \$100 to over \$200 million annually, while Early Childhood Iowa School Ready grants never reached \$50 million per year, even at the height of funding, and Voluntary Preschool funding declined after its peak of \$64.5 million in FY11.

It also reflects the upward trend in funding for business awards, as tax credits more than doubled in seven years, while over the same period investments in early childhood school ready investments were mixed, some losing ground in the last four years and both far below the business credits in size.

While cuts have also been made to the Early Childhood Fund, we examined both School Ready grants and Voluntary Preschool because they are more comparable to business tax credits due to their funding source. Like business tax credits, these funds come directly from the General Fund and are under the discretion of the Governor and Legislature. In the current year (FY12), funding for Voluntary Preschool dropped to 1 percent of General Fund revenues and School Ready Grants dropped to 0.37 percent, while business tax credits rose to 3.71 percent.

**Conclusion**

It is clear the State of Iowa devotes significant resources in the name of economic development, primarily through business tax credits, which have grown steadily over the last decade. There is very little evidence that these investments have actually produced economic activity, as many Iowa Fiscal Partnership publications have shown. At the same time, there is an undeniable and unacceptably wide gap between what we know about the long-term public and economic benefits from ECE investments and what we actually do as a state to ensure healthy development during a child’s first five years.

This is the time to make critical investments that last a lifetime and benefit not only the individual children and families who are served, but ultimately benefit the communities and the state where as adults they will live, work and raise their own families. These investments can pave the way for a brighter Iowa future, but too little is being done now to capture the potential that exists.

Greater and strategic investments in early care and education, supported by the kind of current commitment in public policy toward business tax credits, are needed to realize the economic growth and prosperity state leaders say they are seeking. Expanded funding for existing statewide programs, such as

the Early Childhood Fund, School Ready Fund and Statewide Voluntary Preschool Program are a good place to start, but Iowa has a range of other ECE services needing enhancement. For example, Shared Visions-Preschool and Shared Visions-Parent Support programs, available in 49 and 15 counties, respectively, should be accessible to Iowans statewide.<sup>13</sup> Iowa's child care system — which enables parents to work as well as to provide their children care — needs serious attention if it is to fulfill its goals of providing affordable, safe and developmentally appropriate care.<sup>14</sup> The state will benefit most by putting more resources into a range of programs that support families and children during those critical years of development.

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<sup>1</sup> Jack P. Shonkoff and Deborah A. Phillips, eds, *From Neurons to Neighborhoods: The Science of Early Childhood Development* (National Research Council and Institute of Medicine, 2000).

<sup>2</sup> W. Steven Barnett, *Preschool Education and its Lasting Effects: Research and Policy Implications* (Education and the Public Interest Center & Education Policy Research Unit, 2008) <http://nieer.org/resources/research/PreschoolLastingEffects.pdf>; Charles Bruner, *Many Happy Returns: Three Economic Models that Make the Case for School Readiness* (State Early Childhood Policy Technical Assistance Network, 2004)

[http://www.finebynine.org/uploaded/file/SECP TAN\\_MHR\\_final.pdf](http://www.finebynine.org/uploaded/file/SECP TAN_MHR_final.pdf); Lily French and Peter S. Fisher, *Strengthening Child Care Assistance in Iowa: The State's Return on Investment* (Iowa Policy Project, 2009) <http://www.iowapolicyproject.org/2009docs/090325-CCROI.pdf>; Robert G. Lynch, *Enriching Children, Enriching the Nation: Public Investment in High Quality Prekindergarten* (Economic Policy Institute, 2007).

<sup>3</sup> Lynch, *Enriching Children* (2007) <http://fcd-us.org/sites/default/files/EnrichingChildrenStatebyStateTargeted.pdf>

<sup>4</sup> Lynch, *Enriching Children* (2007): 1

<sup>5</sup> Kathy Cobb, "The ABCs of Early Childhood Development" *The Region* (Federal Reserve Bank of Minneapolis, 2003) [http://www.minneapolisfed.org/publications\\_papers/pub\\_display.cfm?id=3351](http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=3351)

<sup>6</sup> Art Rolnick and Rob Grunewald, *Early Childhood Development with a High Public Return* (Federal Reserve Bank of Minneapolis, 2003).

<sup>7</sup> Stefanie Clothier and Julie Poppe, *New Research: Early Education as Economic Investment* (National Conference of State Legislatures, updated, accessed March 15, 2012) <http://www.ncsl.org/issues-research/human-services/new-research-early-education-as-economic-investme.aspx>

<sup>8</sup> James J. Heckman and Dimitriy V. Masterov, *The Productivity Argument for Investing in Young Children* (National Bureau of Economic Research, 2007). <http://www.nber.org/papers/w13016.pdf>

<sup>9</sup> "Iowa Community Empowerment/Early Childhood Iowa Funding History" *2011 Early Childhood Iowa State Annual Report Early Childhood Iowa* (Iowa Department of Management, Early Childhood Iowa Office, 2012) [http://www.earlychildhoodiowa.org/files/annual\\_reports/2011/FundingSummary2011.pdf](http://www.earlychildhoodiowa.org/files/annual_reports/2011/FundingSummary2011.pdf)

<sup>10</sup> Ibid

<sup>11</sup> Andrew Cannon, *Catching Up: Context for 2012 Budget Decisions in Iowa* (Iowa Fiscal Partnership, 2012) <http://www.iowafiscal.org/2012docs/120207-IFP-BudgetOverview.pdf>

<sup>12</sup> Charles Bruner, *Early Learning Left Out: Building an Early Learning Childhood System to Secure America's Future* (Voices for America's Children, 2010) <http://www.voices.org/wp-content/uploads/2010/11/ELLO.pdf>

<sup>13</sup> Child Development Coordinating Council, *Shared Visions Annual Report* (Iowa Department of Education, 2011).

<sup>14</sup> Every Child Counts, *Priorities for improving Iowa's child-care system: A Five-Year Plan for Early Care and Education* (2012).

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## Iowa Fiscal Partnership

*The Iowa Fiscal Partnership is a joint initiative of the Iowa Policy Project and the Child & Family Policy Center, two nonprofit, nonpartisan Iowa-based organizations that cooperate in analysis of tax policy and budget issues facing Iowans. IFP reports are available at <http://www.iowafiscal.org>.*

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