

Early Childhood Investment: Good Economic Development for Maine

Maine Development Foundation 2009

Slide 1 Presentation Title Slide

Today's presentation will look at how investing in the development of children ages 0 to 5 is a sound economic development strategy for improving Maine's economy.

Using the Maine Economic Growth Council's report – Measures of Growth in Focus 2009 – we will look at some key economic indicators, review how they affect our economic wellbeing and then discuss how investing in quality development for our youngest children might move those indicators in a positive direction and ultimately improve Maine's economy.

SLIDE 2 A Vision for Economic Prosperity

The Maine Economic Growth Council is an independent body created in statute in 1993 and charged with creating a long-term vision for Maine's economic growth and developing a broad range of indicators to assess our progress towards that vision.

The Council's vision is: A high quality of life for all Maine people. The Council believes that in order to achieve that vision, Maine must have

- a vibrant and sustainable economy
- vital communities, and
- a healthy environment

SLIDE 3 Measures of Growth Report

Annually, the Maine Economic Growth Council releases the Measures of Growth report that serves as a report card for Maine's economy. The Measures of Growth in Focus 2009 report contains 24 indicators that viewed as a whole give us a current picture of the Maine economy and allow us to look back over time to review trends. The indicators are organized into three groups: the economy, community indicators, and environmental measures.

SLIDE 4 Four Key Indicators

For the purposes of this presentation we are going to focus on four critical indicators. They are:

- State and Local Tax Burden
- Educational Attainment
- Poverty
- Personal Income

SLIDE 5 State and Local Tax Burden

State and local tax burden is a percentage that measures the total amount of state and local taxes Mainers pay, on average, relative to their incomes. A 14% tax burden means that for every \$100 earned, on average, \$14 in total state and local taxes are paid. So this indicator is both a reflection of government expenditures as well as the levels of income of Maine residents.

We use two sources of data for this measure: U.S. Census and the Tax Foundation. As this graph shows, Census data shows that Maine's state and local taxes were an estimated 14.4% of income in 2006. The Tax Foundation estimated it at 10.8%.

SLIDE 6 Tax Burden Rankings

Both measurements are higher than the New England average and place Maine in the top 10 tax burden rankings nationally.

Taxes are a cost to Maine people and like all costs it is important to ensure that they are in line and not over burdensome to Maine people. They must also be adequate and spent wisely because they pay for a range of critical services like roadways, healthcare and education. It is a balancing game.

Slide 7 Maine Municipal Expenditures

One area, K-12 education, in particular accounts for the majority of tax expenditures at the local level. Almost three-fifths of all spending in Maine municipalities goes to K-12 education leaving two-fifths to cover all other needs.

SLIDE 8 Maine State Expenditures

There is a similar story at the state level where almost 40% of general fund spending goes to K-12 education – the biggest spending category in the fund.

This is a critical investment that the municipalities and the state need to make. It also is money that will not be spent on other needs such as higher education, roads, healthcare, and public safety to name a few. Therefore, where possible, it is important to look at where we can generate savings and get a good product.

SLIDE 9 Special Education Spending

An area within K-12 spending that has grown over time is Special Education. As the graph shows total spending has over doubled from 1992 to 2007.

SLIDE 9 Special Education Spending

As a percentage of total K-12 spending, special education in 1978 accounted for 5% of all spending and by 2007, it accounted for 14% of spending. This is an area we would want to look for opportunities to control future increases in expenditures.

SLIDE 10 Higher Degree Attainment

Higher education has become an increasingly critical factor in Maine's economic development, given today's knowledge economy. Without a trained workforce possessing the necessary skills, Maine will not be able to attract growth businesses and the good jobs they offer.

In 2007, 35.7% of people in Maine age 25 and over held an associate's, bachelors or advanced degree. By comparison, 42.5% of people in New England held a degree, while the percentage nationwide was 34.9%.

SLIDE 11 Higher Degree Attainment (continued)

It is in everyone's interest to improve this indicator. As this graph demonstrates any training beyond high school will increase earning potential on average.

SLIDE 12 Poverty

Poverty is a critical issue in Maine. Like all indicators in this report, it is closely tied to other factors like income and education. It is a measure of how many people in the state are not making ends meet and obtaining the most basic needs.

After a trend that saw a steady rise in the poverty rate dating to the late 1990s, Maine has begun to witness a decline in the percentage of the state's population living in poverty. The graph shows that Maine's poverty rate is below the national rate but above the New England rate.

SLIDE 13 Poverty by Maine County

The poverty rate is not reflective of conditions in all parts of Maine. The poverty rate varies by county. The more rural "rim" counties have higher poverty rates than the "central" service center and southern "coastal" counties.

SLIDE 14 Poverty and Maine's Children

The situation is also different for children. The chart shows that in 2007 the poverty rate for Maine children ages 0-5 was 19.4% and the poverty rate for children under the age of 18 was 15.7%. Although these numbers are in line or slightly below national rates they are still of great concern.

Poverty negatively impacts Maine on many levels. Children growing up in poverty are more likely to experience lags in physical and mental development, which diminishes their chances for educational success and future contributions to the workforce and community. Poverty can also fuel substance abuse and crime. These negative aspects of poverty drain public resources to cover costs such as health care and criminal justice.

SLIDE 15 Per Capita Personal Income

Perhaps the best overall measure of Maine's economic condition is per capita income. The Maine Economic Growth Council gave this indicator the highest priority for attention.

Following a period of prosperity during the 80s, Maine's ranking fell from a historic high of 28th in 1989 back to the mid-30s through the 90s and into this decade. In 2007, Maine's per capita income was \$33,962 and slipped to a ranking of 35th.

SLIDE 16 Personal Income (continued)

This slide shows the income gap between Maine and the rest of the nation. Although Maine's personal income ranking has not made significant improvement in the last 15 years, it can be seen here that the income gap nevertheless has closed over time. Whereas Maine's income lagged the nation by 16%-18% through the 1970s, the income gap shrank to between 9% and 13% over the past two decades.

The critical message to take away is the fact that, accounting for inflation, the incomes of Mainers have been stagnant for several years, experiencing very little growth. Meanwhile, the cost of items like fuel, food and medicine have grown at a steady pace.

SLIDE 17 Childhood Investment Strategy

We have reviewed four key economic indicators and discussed what they mean and the significance to the Maine economy. The question is then what can be done to move those indicators in a positive direction to achieve the vision stated at the beginning of this presentation.

One strategy is to invest in Maine people at the earliest stages of life. This is based on neuroscience findings – specifically that the majority of brain development occurs in a person between the ages of 0 to 5 and that as that person gets older, change becomes increasingly difficult (and expensive for the purposes of this presentation).

Those foundational years set the stage for rest of their lives and are an excellent predictor of educational, social and economic success.

Two important and often cited case studies illustrate this and were able to quantify the financial return on investment in the development of children ages 0 to 5.

SLIDE 18 Case Study 1 – Perry Preschool, Michigan

This study looked at 123 at-risk children in Ypsilanti, Michigan in 1962. Half of the children attended a preschool program while the other half did not and served as a control group. Researchers made multiple assessments on the groups up until the age of 40 to document their progress. Findings support the assertion that care shown to the development of young children generally leads to better results when they are adults. The group that attended preschool:

- Experienced better academic success and education attainment through life
- Had higher earnings, were more self-sufficient, and were more likely employed
- Less likely to end up in the criminal system

For every dollar invested in the young children, there was a return of \$8 to both the individual and society. This was measured in employment and earnings as well as avoided societal costs (educational and criminal).

SLIDE 19 Case Study 2 – Carolina Abecedarian Project, North Carolina

A similar study was conducted with 111 at-risk children in North Carolina in 1972. Half the groups attended preschool while the other half served as a control group. Researchers followed these groups up until the age of 21. Similar results support the findings of the Michigan case.

SLIDE 20 Moving the Four Indicators

Based on the findings of the two case studies and other research it is clear that there is a positive return on investment to early childhood development. This return only gets bigger with time as society reaps more of the benefits.

Using the findings we can look at how this type of investment might move our four indicators.

First, children in preschool receiving quality care and attention perform better in K-12. This lessens the need for academic interventions, special education, and remedial training. As was pointed out, these are growing costs in the largest expenditure category in the state. This would save money over time and potentially have a positive affect in controlling taxes.

Second, children in preschool receiving quality care and attention go further in their academic careers. Again, over time, this could mean moving the higher education attainment indicator in a positive direction and closer to the regional averages.

Third, better academic performance and higher degree attainment are correlated to higher earning potentials. If the investment is made early on to ensure that more people go further with their education and training, this will open opportunities to them that will translate to more income. This would move the personal income indicator in the positive direction.

Finally, by increasing opportunities and improving incomes for more people, we can lower the poverty rate statewide, regionally and across age cohorts.

Most compelling is that this defined and relatively short period of investment is able to influence so many factors across a diverse and spread out population over a long period of time.

SLIDE 21 Ripple Effects

Even though we focused on four indicators for the purposes of this presentation, you cannot isolate them from other indicators in the economy. By improving the four we discussed, you will certainly have positive effects on other areas of the economy. Two examples in this case would be infrastructure investment and R&D investment.

SLIDE 22 Maine Roadways

The Roadway Deficiency Index shown here is a composite measure of the percentage of pavement in poor condition, the percentage of bridges that are structurally deficient, and the percentage of road mileage with lanes narrower than 10 feet.

The index lines compare Maine with New England. As the graph shows, Maine's roadways are in considerably worse condition than the rest of the region.

Going back to the discussion of controlling K-12 costs by investing in children earlier, savings generated in those expenses could be spent elsewhere such as infrastructure maintenance and improvements. Avoided costs in one area could mean more resources in another area.

SLIDE 23 R&D Spending

A growing R&D sector in Maine creates wide-ranging economic benefits, chief among them better jobs, higher incomes and increased government revenues.

The graph shows that research and development spending has moved relative to the benchmark, rising to 1.2% percent of GDP in 2005. The Growth Council believes that the 3% of GDP by 2010 benchmark is the minimum investment necessary to expand Maine's innovation-driven economy and increase competitiveness with the US.

If through early childhood development initiatives Maine could increase the number of people attending and completing college, we could better support our institutions of higher learning and provide them with the greater capacity that would allow them to conduct more R&D. Likewise, if our workforce is better trained we can attract more of the growth businesses in today's economy who themselves invest in R&D.

SLIDE 24 Government Cannot Do This Alone

We have outlined the argument and justifications for investment in early childhood development as a long-range economic development plan for Maine. So how do we do this?

First, there are a number of tried and tested methods for delivering the type of attention and education that will deliver the desired results listed here. They range from ensuring high-quality certified daycare to preschool to educare centers. For the purposes of this presentation we will not go into the merits of one method over another.

Which ever method is chosen there will be a cost. It is unlikely that government, considering the many obligations and unmet needs that already exist could adequately fund this alone. Both business and philanthropy have roles to play in the funding question.

Business has a vested interest because this directly affects the future of their workforce – a critical need that is growing more critical each year in Maine. Additionally, business has a vested interest in seeing government pay for certain infrastructure items in the state. If money is freed up elsewhere more of those issues could be addressed.

Philanthropy has a vested interest as well. Generally the mission of philanthropy is to bring about positive social and economic change through strategic investments in areas that are not receiving any or enough

resources from the public or private sectors. Their money is not limitless so investing early on in children strategically and financially might be the most effective strategy.

SLIDE 25 Conclusion (Vision slide)

If we focus our attention on creating a vibrant economy, healthy communities and a clean environment, we can attain our vision for a high quality of life for all Maine citizens.

Investment in early childhood development is a clear and proven strategy that can move us there.

I welcome any questions you may have.