

Why Invest in Early Childhood Development?

The following article by Daniel Treffler appeared in the Globe and Mail on June 30, 2009.

Back in May, I was approached by a group of investors who needed some return-on-investment (ROI) numbers for several projects. The returns were spectacular. Even after netting out inflation and the cost of capital, I was getting ROIs of 5.3 per cent, 6.7 per cent and 9.0 per cent. These are stunning returns. Some of you will rightly be thinking that the investor group will soon be in jail, perpetrators of another Madoff-like Ponzi scheme.

But here's the rub. This group of investors is not the usual set of schemers. They're Canada's Council for Early Child Development, and their business is kids. Many of you will not fully appreciate just how rich the returns to investments in kids are, but check out the accompanying chart. The City of Chicago has been running child-parent centres for the better part of 20 years. To their credit, the centre designers wondered whether the program was worth the extravagant costs. So they did a clinical trial, randomly letting in some kids and randomly turning away others. They then examined outcome differences between the two groups over the next 20 years of the children's lives. The ROIs were 9.0 per cent. For those with some business experience, you'll know that an ROI above 0 per cent triggers a strategic decision by management to invest.

For those of you with less business experience but lots of good sense, I can translate ROIs into something that looks like a Canada Savings Bond by adding in inflation and taking out the cost of capital. This generates a long-term annual return of 12.2 per cent. By way of comparison, the accompanying chart plots the performance of 10-year Government of Canada bonds. These have been well below 12.2 per cent over the past decade. For good measure, the chart also plots cumulative annual returns on the TSX since January of 2000. Kids have been outperforming bonds and equities for the past decade.

Unfortunately, the Canadian government fails to understand this. It simply doesn't appreciate the value of investing in children. Canada currently spends 0.2 per cent of its GDP on early childhood initiatives. In contrast, the Swedes spend more than nine times that amount. Fraser Mustard - guru to our underaged - argues that comparable care to that offered in Sweden would cost Canadian governments \$15-billion a year more than the paltry \$3-billion we currently spend. At first glance, this is a staggering amount and completely unaffordable. But let's look at this as a business proposition.

The issue, as business people know, is that quality is free. If you solve defects before your product goes out to consumers, then you pre-empt expensive remedial work and build customer loyalty. Kids are no different. Remedial work is expensive and ineffective. You fix at-risk kids for cheap when you attend to them early, before they head out into the workplace and discover their loyalty lies with the unemployed.

In my latest research, I show that Fraser Mustard's \$15-billion is entirely affordable - because quality is free. If we put Dr. Mustard's program in place, then at-risk kids will work and earn more as well as remediate, steal and get sick less. More work means more taxes, and less remediation/stealing/sickness means less government expenditures. This turns out to imply government fiscal benefits of \$13.1-billion. It also means we only need an additional \$1.9-billion to have a national, world-beating, high-quality, universal early child development program in this country. Some of you will think I'm selling snake oil, so let's tackle the four most common arguments against spending on kids:

The benefits do not last. Fiction, not fact. There are effects that are not long-lasting, such as impacts on IQ. But there are also effects that have longevity, such as increased rates of high-school graduation. The Chicago example tracked effects for almost 20 years. One program, the Perry Preschool Program, has tracked kids for 37 years. All these long-term studies arrive at a single conclusion: Many important benefits last. Fact, not fiction.

Kids in many daycares are stressed out and aggressive. Absolutely. That is what cheap, unregulated daycare does. The reason Dr. Mustard's program is so expensive is that it costs big bucks to train and retain good educators. And as the Swedes know, good educators are needed to deliver great, regulated programs. You pay for what you get.

The at-risk population is small and poor. Since most of the population is not at risk, the returns to universal programs are negative. Wrong. According to my calculations, as long as at least 19.8 per cent of our kids are at risk, investors will earn more by placing their bets on kids than by investing in stocks and bonds.

We must pay the \$15-billion up front, but it will take between 11 and 18 years before the full benefits are realized. Okay, so there is a short-term budgetary issue to contend with. But there is no other fine print in my This Business of Kids Inc. prospectus. And you can take that to the bank.

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