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# Center on Wisconsin Strategy

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## **Data Shows 205,136 Wisconsin Children in Poverty in 2003 -- Increase of More Than 34,377 Since 2000.**

### **Report: Huge Payoff to Taxpayers from Early Investment in Kids -- and Huge Losses from Current Neglect.**

**MADISON** - 34,377 more Wisconsin children fell into poverty between 2000 and 2003 according to new data from the US Census Bureau.<sup>1</sup> Citing these disturbing numbers, the Center on Wisconsin Strategy (COWS) today released a new study from the **Economic Policy Institute** (EPI) that finds that our failure to invest in the healthy development of young children leads to enormous problems, especially for poor kids – and enormous costs to taxpayers and society -- as they go through school, and then enter the workforce (or too often the criminal justice system) unprepared to be productive workers and citizens.

But the report's findings point to a hopeful future. **Exceptional Returns: Economic, Fiscal, and Social Benefits of Investment in Early Childhood Development** by economist Robert G. Lynch, finds that smart investments in comprehensive high quality early childhood development (ECD) programs would more than pay for themselves – generating more than \$2 in returns to taxpayers for every \$1 invested. (The total benefits to society from ECD investments exceed 8 to 1.) The report also finds that investment in the health and education of children in their early years (3 and 4 years old) will eventually produce significant increases in economic productivity and growth, while reducing both the public costs and personal burdens of remedial education, welfare, crime, and widespread poverty that are the results of our current failure to enrich the lives of so many of America's children.

“This important report shows that growing child poverty and a less productive economy are the price we are paying for our failure to invest in children,” said COWS Research Director Laura Dresser. “But it also demonstrates a way out of the problem: that a significant new investment in our youngest children would not only greatly reduce child poverty, it would actually help our state's fiscal balance sheet, reduce crime, and grow our economy over time.”

The new EPI report is being released by COWS in Wisconsin and by similar groups in other states around the country – with the help of the Washington-based Institute for America's Future, Voices for America's Children and a national network of state-based think tanks – in order to draw attention to the crisis of increasing child poverty and the good news about the benefits of investing in children in their early years. Author Lynch documents a growing consensus, among very conservative economists and business leaders as well as liberals, that early public intervention to improve young children's health, brain development, family environment, and readiness for school represents one of the best and most productive uses for public funds because of the proven return to the public treasury and to the long-term health of the economy that these kinds of investments

produce over the long-term.

Dr. Lynch, who is the Chair of the Department of Economics at Washington College, quotes Nobel Prize winning economist James Heckman of the University of Chicago:

“Recent studies of early childhood investments have shown remarkable success. . . . In the long run, significant improvements in the skill levels of American workers, especially workers not attending college, are unlikely without substantial improvements in the arrangements that foster early learning. We cannot afford to postpone investing in children until they reach school age – a time when it may be too late to intervene. Learning is a dynamic process and is most effective when it begins at a young age. . . .and government interventions at an early age that mend the harm done by dysfunctional families have proven to be highly effective.”<sup>ii</sup>

Likewise, Director of Research, Arthur Rolnick, and a regional economic analyst, Rob Grunewald, of the respected Federal Reserve Bank of Minneapolis have come to similar conclusions:

“...recent studies suggest that one critical form of education, early childhood development, or ECD, is grossly under-funded. However, if properly funded and managed, investment in ECD yields an extraordinary return, far exceeding the return on most investments, private or public.... In the future any proposed economic development list should have early childhood development at the top.”<sup>iii</sup>

The Lynch study for the Economic Policy Institute examines the costs and benefits of a nation-wide program that would provide poor 3 and 4 year-old children (20% of all 3 and 4 year-olds in the US) with a high quality comprehensive program of early childhood development that would initially cost about \$19 billion a year. Based on the results of well-documented studies of smaller-scale programs, Lynch finds that such a nation-wide program would ultimately reduce costs for remedial and special education, for criminal justice, and for welfare benefits and would increase income earned and taxes paid back to society. Within about 25 years, the offsetting budget savings (for all levels of government combined) would reach \$31 billion (in 2004 dollars). And within about 45 years, the budgetary benefits would more than double the costs of the ECD program, and the net budget savings would reach \$61 billion (in 2004 dollars).

In addition to the returns to taxpayers, Lynch finds that investing in poor young children is likely to have an enormous positive impact on our economy, raising the Gross Domestic Product, improving the skills of our workforce, reducing poverty, and strengthening the global competitiveness of the U.S. economy. He finds that crime rates and the heavy costs of criminality to society are likely to be substantially reduced, as well.

Lynch also demonstrates that the young children we invest in today will become more productive workers, make higher income and pay more taxes in the future. That will strengthen our public finances and raise contributions into the Social Security and Medicare system, enhancing the solvency of these programs just our public retirement system is expected to need more revenues. For example, if we began a serious program of ECD investments next year, the government-wide budget improvement in 2030 and in 2050 would be enough to offset about one-fifth of the deficits in the Social Security trust fund projected for those years. This potential contribution to the solvency of the Social Security system would be achieved without raising Social Security taxes or cutting benefits.

Census data<sup>iv</sup> released August 26, 2004 show that the number and percentage of American families living below the poverty line – as well as those without health insurance -- increased for the third

consecutive year in 2003.<sup>v</sup> Little noticed or reported was the Census Bureau's data on the increases in child poverty. Nearly one in five children under age six in the United States lives in poverty and the number is rising. Among wealthy industrialized nations, America ranks second to the bottom in the real disposable income of low-income families with children.<sup>vi</sup>

Moreover, in the US poor children got poorer in recent years. The number of children living below *half* the official poverty line rose by 824,000 from 2000 to 2003. (Half the poverty line is \$7,340 a year for a family of three, or just \$612 a month.) Children currently account for 25 percent of the nation's total population but 36 percent of the nation's poor.

While safety net programs such as food stamps and the Earned Income Tax Credit lift some families from poverty, the safety net is far weaker today than ten years ago. There are 8.4 million children without health insurance in the US. And the real value of the minimum wage for working parents has been declining over the past decade. Clearly the increase in child poverty is largely due to the growth in unemployment among family breadwinners during the recession that began in 2001.

"Growing child poverty is an indicator of our failure to invest in our children," said Laura Dresser of Center on Wisconsin Strategy. "This groundbreaking report shows that basic things like nutrition, health care, pre-K education, and programs to prepare and support parents are not only good for kids, they provide a real return to the taxpayers. If we fail to act on its findings, our whole country will suffer for it."

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**<sup>i</sup> Income, Poverty, and Health Insurance Coverage in the United States: 2003**

based on information collected in the 2004 Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS) conducted by the U.S. Census Bureau. Issued August 27, 2004  
By Carmen DeNavas-Walt, Bernadette D. Proctor, Robert J. Mills.  
<http://www.census.gov/prod/2004pubs/p60-226.pdf>

<sup>ii</sup> Heckman, James (1999). "Policies to Foster Human Development," working paper 7288, National Bureau of Economic Research, Cambridge, MA. pp. 22 and 41

<sup>iii</sup> Rolnick, Art and Robert Grunewald (2003). "Early Childhood Development: Economic Development with a High Public Return," Fedgazette, Federal Reserve Bank of Minneapolis, March. pp. 3 and 16

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<sup>v</sup> Center on Budget and Policy Priorities: August 27, 2004: Census Data Show Poverty Increased, Income Stagnated, And The Number Of Uninsured Rose To A Record Level In 2003, <http://www.cbpp.org/8-26-04pov.htm>

<sup>vi</sup> Timothy M. Smeeding and Lee Rainwater, "Comparing Living Standards Across Nations: Real Incomes at the Top, the Bottom, and the Middle" (February 2002), figure 3. Available at [www.cpr.maxwell.syr.edu/faculty/smeeding/selectedpapers/livingstandards.pdf](http://www.cpr.maxwell.syr.edu/faculty/smeeding/selectedpapers/livingstandards.pdf)