

The

Heckman

Equation



► The Nobel economist's unsentimental pitch for spending tax dollars on early education

► "The argument is not just an appeal to the poor. We're saving money for everyone"

"Boy, Jim, sounds like you've really turned into a social democrat." This is what James Heckman remembers Lawrence Summers telling him one day in the early 1990s as they sat in Summers's office in Washington. Heckman, an economist at the University of Chicago, was laying out his ideas about economic development to Summers, then a Treasury under secretary. Poor families should have guaranteed access to education for their 3- and 4-year-olds, Heckman said. He wasn't advocating socialism, he told Summers, just the opposite: He was fixing a market failure.

Heckman won a Nobel prize in 2000. He used his speech in Stockholm to underscore the importance of using

hard, observable data in making public policy, and he's continued to gather evidence for the idea he explained to Summers. Focused, personal attention paid to the young children of poor families isn't some warm, fuzzy notion, he argues. It's a hard-nosed investment that pays off in lower social welfare costs, decreased crime rates, and increased tax revenue. And he has the numbers to prove it. He calls this the Heckman Equation, and shares it relentlessly in public lectures around the country and the world. "The argument is not just an appeal to the poor," he says. "We're saving money for everyone, including the tax-paying middle class and upper class. Right now they're supporting prisons,

health, special education in schools. The benefit is broadly shared.... It's something that would actually accrue to the whole country."

Saving money, or at least justifying spending it, is now a requirement in Congress and state capitols, and Heckman's advocacy is winning the support of politicians in both parties. Last year the White House pointed to his work in its budget proposal for early education grants to states. On Dec. 13, congressional negotiators put \$250 million for new early education funding into its omnibus spending bill. And President Obama is expected to make the issue a priority in his upcoming State of the Union speech.

The states are way ahead of Obama.



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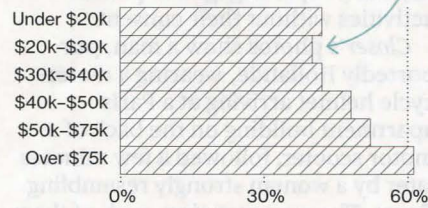
Fifteen governors, more Republicans than Democrats, included new money for early childhood education in their budgets in 2013. In all, states are now spending \$400 million more on pre-K than before the economic downturn. Secretary of Education Arne Duncan, who meets with Heckman often, says much of this activity can be credited to Heckman's work. "You have this Nobel prize-winning economist and not some soft-hearted someone like me," says Duncan. "It's incredibly powerful."

Heckman grounds his argument in two long-term studies, one begun in the 1960s in Ypsilanti, Mich., and another a decade later in Chapel Hill, N.C. Both provided free preschool to children from lower-income families. In the decades since, researchers have been given periodic access to those children, now adults. At age 40, the subjects from the Ypsilanti study were far more likely than their peers to have graduated from high school and have jobs. They were more likely to own homes and less likely to have needed social services. The boys were more likely to have grown up to raise their own children and less likely ever to have been arrested. Children from the program in Chapel Hill had higher test scores than their peers through adolescence and were more likely to have gone to college. Both studies are well-known to education researchers. Heckman put them under the gimlet eye of a microeconomist.

In 2010 he and several co-authors produced what he called the "first rigorous cost-benefit study" of the Ypsilanti program. The free instruction cost \$17,759 per child per year in 2006 dollars (the year they began working with the data). Heckman set out to find out what taxpayers got for that money. He calculated what the program had saved the state and federal government in social welfare, what it had paid out in increased tax revenue from higher wages, and, most significantly, what it had saved in police, court, and prison costs. The initial investment provided what Heckman calls a "return to society" at an annual rate of 7 percent to 10 percent. Put another way, each dollar spent at age 4 is worth between \$60 and \$300 by age 65. "For my Republican friends, that's a language

Preschool Participation

2012 enrollment of 3- and 4-year-olds in U.S. preschools, by parents' income



GRAPHIC BY BLOOMBERG BUSINESSWEEK
DATA: U.S. CENSUS BUREAU

they respect," says Duncan.

At this month's conference of the American Economic Association, Heckman presented a new reason for government to provide this benefit. The data show that the earlier a child gets help, the better the results through each stage of education. Yet younger parents are on the whole more credit-constrained than older ones. So at the time they ought to be putting their kids into early education programs, they don't have the money or credit to pay for it. Economists call this an imperfect credit market. "The accident of birth is a huge, huge imperfection," says Heckman.

Early education has political appeal because it not only benefits society but it more than pays for itself. "It's not just redistribution," says Harvard University economist David Deming, who shares data with Heckman and agrees broadly with his findings. "If there are people who disagree with Jim Heckman," he says, it's because they doubt that "one experiment with 100 kids in Ypsilanti gives you the information you need." Heckman concedes the early studies are showing their age. But more recent research on programs from other states "has one major flaw—no long-term follow-up," he says. "I'm not going to argue that those things might not work, but we can't argue yet that they have."

It's also not clear whether spending on middle-class children yields the same return as it does for poor kids. "A lot of this eye-popping benefit comes from crime reduction," says Deming, and children from better-off families are less likely to commit crimes with or without early education. Heckman agrees. For that reason he stops short of

endorsing universal pre-K. As a matter of politics, though, any education program must include the middle class. "Reality is, if you target a program at the very poor, it's hard to build political support," says Duncan.

Heckman's research doesn't lead him to endorse any single early education proposal. "The idea of a uniform curriculum is insane," he says. "There's this notion of objective public policy. Everyone signs off, and governors give away fountain pens," he says, but each state has different needs. Regardless of the curriculum a state adopts, the long-term savings his research promises come from providing intense, parenting-style attention to the children who can most benefit from it. "The most successful programs," he says, "would mirror what's going on in the most successful families."

—Brendan Greeley

The bottom line Heckman calculates that early education spending yields an annual lifetime "return to society" of up to 10 percent.

Media

The French Tabloids' All-Too-Candid Cameras



- ▶ The press is ignoring venerable laws protecting politicians' privacy
- ▶ Complaints that Hollande hasn't "earned the right to have some fun"

French law prohibits the news media from prying into the private lives of public figures. Yet they're doing it more and more, as the magazine *Closer* demonstrated on Jan. 10 when it published seven pages of photos documenting an alleged affair between President François Hollande and actress Julie Gayet. The same day, ▶