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Why Investing in Kids Makes Sense for Local Economies

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Why Investing in Kids Makes Sense for Local Economies

My recent book, *Investing in Kids: Early Childhood Programs and Local Economic Development* (Bartik [2011], published by the Upjohn Institute), makes the case for why an investment in high-quality early childhood programs will pay off in improved local economic development. State and local governments must take the lead for this expanded public investment; the federal government has other pressing concerns.

High-quality early childhood programs will result in a local economy with more skilled labor, which will attract more and better jobs to the local economy.

Why is there a local payoff from early childhood programs? Many child participants in these programs will remain in their home states or metro areas for most of their working careers. High-quality early childhood programs will enhance the skills of these former child participants. As a result, the local economy will have more skilled labor, which will attract more and better jobs to the local economy. An increase in the number and quality of jobs will raise local per capita earnings, the most important benefit of local economic

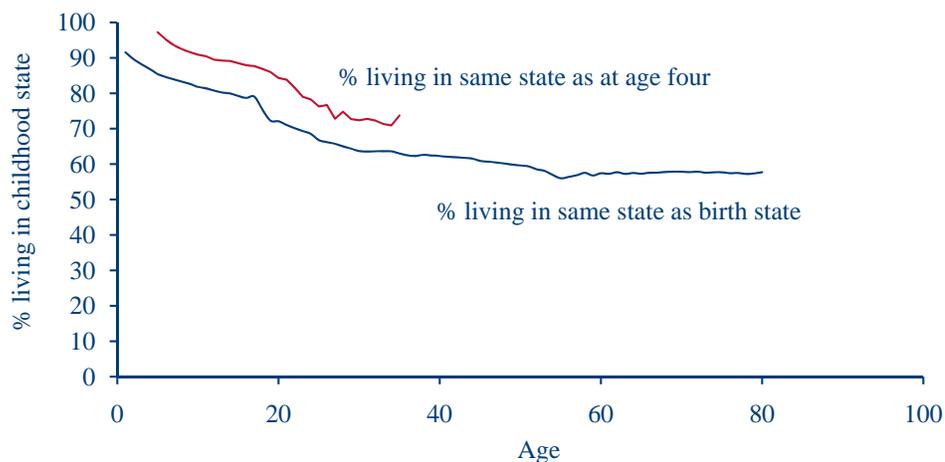
development. Although many policies affect job skills, early childhood programs deserve emphasis because of good evidence for cost-effectiveness.

Investing in skills through early childhood programs is an alternative to traditional local economic development policies. These traditional policies have emphasized business tax incentives such as property tax abatements. If successful, such incentives boost labor demand. The most important benefit of increased labor demand is higher per capita local earnings.

In contrast, early childhood programs mainly work on the labor supply side of the local economy. These programs can increase local labor supply quality because Americans are less mobile than sometimes thought. About two-thirds of Americans spend most of their working careers in their childhood states (see Figure 1). Over half spend most of their working careers in their home metro areas. These percentages do not decline much for smaller or slower-growing metro areas (Bartik 2009).

In an era of declining relative communication and transportation costs, businesses are increasingly free to locate far from raw materials or markets. But businesses need to be close to a supply of skilled labor. "Business climate" is as much affected by local labor force quality as by business taxes.

Figure 1 Percentage of U.S. Adults Living in Same State as at Birth or in Early Childhood



NOTE: Data on percentages living in birth state are calculated by the author from the Public Use Microdata Samples, 2000 census. Note that these figures are biased downward, probably about 6 percent, because of households listing location of hospital as state of birth, not residential location of mother at time of birth. Data on percentages living in same state as at age 4 are calculated by the author from the Panel Survey of Income Dynamics, Geocode version.

But why emphasize early childhood programs when local labor supply quality can be affected by K-12 education, job training, or by attracting the “creative class” (Florida 2002)? Early childhood programs should be emphasized because they have rigorous evidence of effectiveness. A random assignment experiment, the Perry Preschool Program, shows that preschool can have large effects on educational attainment and adult earnings through age 40. A large-scale preschool program, the Chicago Child-Parent Center program, also provides good evidence on preschool’s long-term effectiveness in increasing high school graduation rates. Shorter-term studies in at least seven states use a rigorous “regression-discontinuity” evaluation design to show that large-scale state-funded pre-K programs can improve kindergarten readiness.

Other early childhood programs also have rigorous positive evaluations. The Nurse-Family Partnership is a nurse home visitation program that provides services to first-time disadvantaged mothers from the prenatal period to age two, and seeks to improve prenatal care, parenting, and the mom’s life course. Experimental evidence shows that the

program reduces juvenile crime. The Abecedarian program, a full-time child care and preschool program from birth to age five, has evidence from a random assignment experiment that it increases employment of mothers and educational attainment of former child participants.

We know more about the long-term effects of early childhood programs than about the long-term effects of 3rd grade. It is impossible to randomly deny 3rd

Early childhood programs should be emphasized because they have rigorous evidence of effectiveness.

grade to a child, whereas many random assignment and other rigorous studies have been done for early childhood programs.

A reasonable question is how it is possible for such limited-time interventions in early childhood to have large effects on adult outcomes. As suggested by Nobel Prize-winning economist James Heckman and others, the answer seems to be effects of early childhood programs on “soft skills” (Heckman et al. 2010). Sometimes the

effects of early childhood programs on “hard skills,” such as those measured by reading and math tests, seem to fade as students progress through the K-12 system. However, soft skill effects of early childhood programs seem to become more profound over time. Soft skills include how the child interacts with peers and teachers, the child’s ability to plan, and the child’s self-confidence. A more confident child with better peer and teacher relationships will find such skills rewarded during kindergarten, which encourages further development of these skills, and so on as the child continues through school.

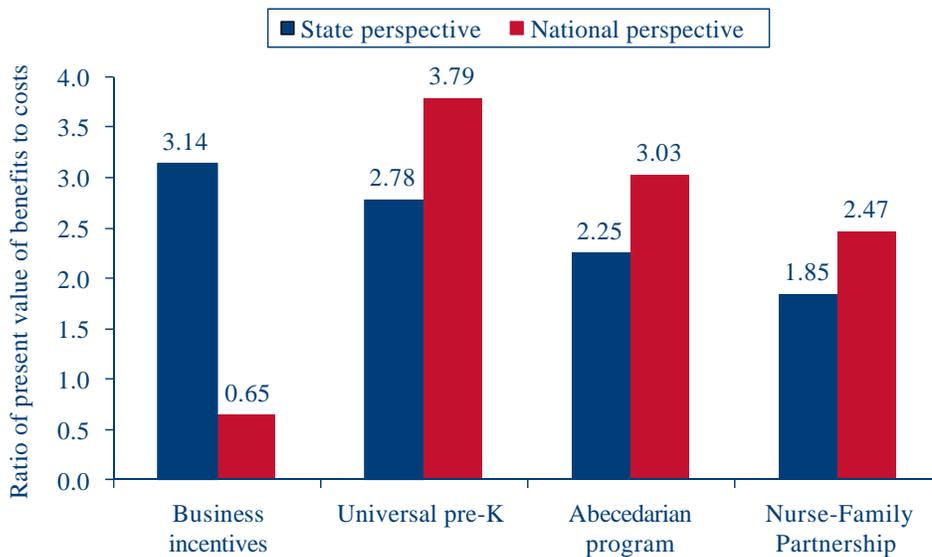
For early childhood programs to be effective, these programs must be high quality. But we know something about how to create quality programs. For preschool, class sizes must be reasonable, the curriculum must engage the child in active learning, and teachers must know how to encourage learning without being overly directive. For the Nurse-Family Partnership program, we know that it works better with nurse home visitors than with paraprofessionals.

Based on studies of early childhood programs, as well as estimates of how many former child participants will remain in the state, and based on the effects of state labor quality on job growth, I provide estimates in my book for the ratio of state economic development benefits to costs for three early childhood programs. These state economic development benefits are the increased present value of state residents’ per capita earnings. The three early childhood programs are universal pre-K for four-year-olds, the Nurse-Family Partnership program, and the Abecedarian program. Figure 2 shows these estimates.

For comparison, the figure also shows the ratio of economic development benefits to costs for well-designed business tax incentives. Ratios are similar across all four programs: all these programs increase state residents’ per capita earnings by two to three times their costs.

From a national perspective, early childhood programs have larger economic development benefits. These

Figure 2 Ratio of Economic Development Benefits to Cost, State versus National Perspective



national benefits include the increased earnings of former child participants who move to other states. In contrast, business tax incentives have smaller benefits from a national perspective. Most of the state benefits of business tax incentives are due to state business activity that would have otherwise occurred elsewhere in the United States.

Furthermore, federal policy should discourage states' indiscriminate use of business tax incentives. It should encourage states' investments in high-quality early childhood programs.

However, the federal government currently has a lot on its plate, with budget deficit problems and challenges from rising health care costs. Major federal interventions with business tax incentives or early childhood programs seem politically unlikely. States are on their own.

One political impediment to state investment in early childhood programs is the long-term nature of these economic development benefits. Most of the increased earnings per capita due to early childhood programs only occur 20 or so years later, when the former child participants enter the labor force.

However, some of these programs' benefits for children may be increasingly valued by parents. This parental valuation may make it easier for businesses to

attract parents to a state offering high-quality early childhood programs, and it may also increase property values. For example, we know that home values are increased by higher elementary school test scores. In the book, I calculate that universal pre-K, due to its effects in increasing elementary school test scores, should raise local property values by about 13 times the annual program costs of providing universal pre-K.

There are historical precedents for state initiatives to invest in expanded education. The common school movement of the nineteenth century, along with the high school movement of the late nineteenth and early twentieth centuries, were grassroots initiatives at the state and local levels. These state and local investments in expanded education were in part motivated by the potential short- and long-run economic benefits for local communities. For example, in 1914, the Iowa Department of Public Instruction made the following argument: "The landlord who lives in town . . . may well be reminded that when he offers his farm for sale it will be to his advantage to advertise, 'free transportation to a good graded school'" (quoted in Goldin and Katz [2008], p. 193).

The idea of early childhood programs as a spur to state and local economic development is a powerful concept. The

empirical evidence supports this idea, but will it become accepted by the public, the business community, and political leaders? If so, this new way of thinking about economic development may encourage the political support needed to make early childhood programs more broadly available.

Note

This article contains many statements that are not referenced due to space constraints. For a complete bibliography, please see the book, *Investing in Kids*.

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