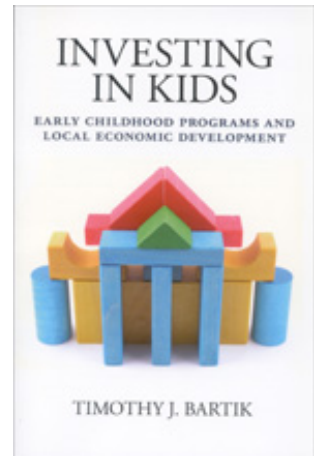


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## Introduction

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# 1

## Introduction

This book presents arguments for the following propositions: Local<sup>1</sup> economic development strategies in the United States should include extensive investments in high-quality early childhood programs, such as prekindergarten (pre-K) education,<sup>2</sup> child care, and parenting assistance. Economic development policies should also include reforms in business tax incentives. But economic development benefits—higher earnings per capita in the local community—can be better achieved if business incentives are complemented by early childhood programs. Economic development benefits can play an important role in motivating a grassroots movement for investing in our kids.

I first became involved with early childhood policy in May of 2005, when I was contacted by a vice president for the Committee for Economic Development (CED). CED is a national organization of business executives and university presidents that sponsors research and takes positions on policy issues. CED tends to take “centrist” positions.

As I was to discover later, CED’s work on early childhood issues was largely funded by the Pew Charitable Trusts, a large national foundation headquartered in Philadelphia. Pew had decided to get involved in promoting the greater availability of high-quality pre-K education in the fall of 2001. Pew soon moved into a national leadership role in promoting pre-K expansion. As David Kirp, professor of public policy at the University of California, Berkeley, says in his book *The Sandbox Investment*, “Ever since the Pew Charitable Trusts made preschool a priority, the foundation has largely masterminded the national early education agenda” (Kirp 2007, pp. 174–175). Pew has provided much of the funding for the National Institute for Early Education Research at Rutgers University, and for the advocacy group Pre-K Now. After several years of focusing its efforts on pre-K education, Pew has expanded to encompass a broader set of early childhood programs.

According to Pew staff, political support for early childhood programs is enhanced by evidence that these programs provide business or economic benefits: “One very successful part of the early education

message that resonates with a variety of important audiences,” say Pew staff Urahn and Watson (2006), “has been the macroeconomic benefits prekindergarten offers to the communities and states that invest in early education. This message has generated substantial interest from advocates, policymakers, and business leaders, helping them understand the value of early education in a new light.” Therefore, Pew has funded research that explores different ways of measuring the economic or business return to pre-K education. In the past several years, Pew has also funded research on the economic returns to other early childhood programs. This Pew research funding includes my 2005–2006 research on the economic development effects of universal pre-K education, my 2007–2008 research on the economic development effects of other early childhood programs, and now this book, which summarizes and expands on this earlier work.<sup>3</sup>

When I was contacted in 2005, CED’s request was to “compare the net benefits/rate of return to prekindergarten programs with alternative state and local economic development investments (such as sports stadiums, business parks, facilities relocation, and the like).” The committee mentioned that it had contacted me because “much of your work focuses on economic development.” My previous work in this area includes a 1991 book on the distributional effects of economic development programs, and research publications on the effects of taxes and public services on business location decisions, and on how to evaluate local economic development programs.

As I reflected on CED’s request, I decided it made more sense if modified. This research seeks to be relevant to the concerns of political and business leaders interested in local economic development. To achieve this relevance, we need to consider effects of prekindergarten programs that are similar in character to the effects of economic development programs. For example, one of the most important benefits of some high-quality pre-K programs is the resulting reduction in crime when the children get older. Crime reduction is of interest to police chiefs and to voters in general. But crime reduction is not the primary goal of economic development programs. Rather, these programs seek to create jobs and earnings for local residents. If there is any case to be made for pre-K programs as “economic development programs,” then pre-K programs need to provide “economic development benefits.” These benefits are increased jobs or earnings for local residents.

Ironically, my modification of the CED/Pew request was inspired by a research publication that focused on crime reduction. In 1996 (updated in 1998), the RAND Corporation published *Diverting Children from a Life of Crime* (Greenwood et al. 1998). This publication compared the anticrime effects of California's "three strikes" law, which mandates long prison sentences for repeat offenders, with the anticrime effects of four social programs. These four social programs include 1) home visits, 2) parenting training and therapy, 3) high school graduation incentives, and 4) early supervision of delinquent high school youth. Greenwood et al. compared these four social programs with the "three strikes" law in terms of the serious crimes averted per million dollars spent.

I admired this RAND publication because it directly addressed concerns about crime. The publication says that if your goal is reduced crime, here is what various programs can do for you. RAND accepted the legitimacy of concerns about crime rather than belittling those concerns. RAND tried to provide objective evidence on what is the best means of achieving anticrime goals.

My thought was that something similar could be done for economic development goals. As is developed further in this book, there are good reasons to think that economic development goals are important. But what is the best strategy for achieving those goals? Could pre-K play an important role in achieving economic development goals? These are questions that could benefit, it seemed to me, from some objective investigation.

## **CLARIFYING PREVIOUS THINKING**

My 2005 research was not the first research on what early childhood programs can do for local economies. Much of the recent interest in the economic development benefits of pre-K education was sparked by a March 2003 article by Rolnick and Grunewald, "Early Childhood Development: Economic Development with a High Public Return." Art Rolnick was director of research at the Federal Reserve Bank of Minneapolis until 2010. Rolnick is a well-known participant in debates related to Minnesota and Twin Cities economic development. Rob Grunewald is a regional economic analyst at the Minneapolis Fed. This article was

quickly shared within the early childhood community. The article was also quickly used to advocate for more funding for high-quality pre-K education. As Rolnick (2008) said, because of this article, “our phones have been ringing off the hook.”

In this article, Rolnick and Grunewald (2003) argue for pre-K because “we estimate the real internal rate of return for the Perry School program at 16 percent . . . about 80 percent of the benefits went to the general public (students were less disruptive in class and went on to commit fewer crimes), yielding over a 12 percent internal rate of return for society in general . . . The returns to [early childhood development programs] are especially high when placed next to other spending by governments made in the name of economic development. Yet [early childhood development] is rarely considered as an economic development measure.” (For those unfamiliar with the research on pre-K, the Perry Preschool program of the 1960s is the pre-K program with the best research evidence for long-term benefits after age 25. Participants in Perry Preschool have been compared with a randomly chosen control group up through age 40.<sup>4</sup> This comparison includes employment, earnings, education, welfare receipt, and involvement with crime.)

My concern about the Rolnick/Grunewald argument is that the authors treat “economic development benefits” as being the same as “economic benefits.” But “economic development benefits” form a category of economic benefits that has a special importance. In arguing for the superiority of early childhood development over business incentives, Rolnick and Grunewald include all benefits. For the Perry Preschool program, they include the benefits from crime reduction, which are at least half of the benefits of this program.<sup>5</sup> However, reduced crime is not the same as better employment opportunities. Economic development practitioners are trying to improve employment opportunities for local residents. Are early childhood programs a good “economic development investment” if we only consider effects on employment opportunities for local residents?

An emphasis on “economic development benefits” only makes sense if such benefits are especially important. As this book will argue, improved employment opportunities for local residents do have special importance. There is something different about local jobs for local residents as an economic good. There is also a special political importance attached to these kinds of economic development benefits.

Prior to my 2005 research, there also existed research on what early childhood programs provide in “economic multiplier” benefits. Key contributors to this research have been Professor Mildred Warner at Cornell, and the Insight Center for Community Economic Development. This research estimates the economic impacts of more government spending on early childhood programs. The extra spending will lead to multiplier effects: early childhood programs will buy local supplies; pre-K teachers or other employees of early childhood programs will buy local goods and services.

Multiplier effects have a political appeal: the economic benefits are immediate. However, a state or local government that expands spending on early childhood programs must also raise taxes, unless federal or other outside funding is available. As is developed in this book, once one accounts for both taxes and spending, multiplier effects of early childhood programs are modest.

The most important economic development benefit of early childhood programs comes from their effects on their child participants. When they become adults, these former child participants have improved job skills and job attitudes. Quality has improved for their labor supply. Better local labor supply will increase local earnings. (There also are some effects on the labor supply of the parents. But for most programs, parental effects are smaller than effects on former child participants.)

Obviously, pre-K programs for four-year-olds are not sending kids into the workforce at age five. The economic development benefits of early childhood programs are mostly long-term. These economic development benefits do not begin to take off until former child participants enter the labor force, and they are not fully realized until these former child participants enter their prime earnings years. The long-term nature of economic development benefits of early childhood programs is a political handicap, because politicians often have a short-term perspective. Advocates for early childhood programs must consider how to make these long-term benefits more salient. Policy analysts must also consider that the “local” economic development benefits of early childhood programs will depend on how many former childhood participants stay in the local economy.

## **A BALANCED ECONOMIC DEVELOPMENT STRATEGY: BOTH LABOR DEMAND AND LABOR SUPPLY POLICIES**

Local economic development practitioners in the United States have traditionally relied on business incentives. By “business incentives,” I mean policies that provide discretionary tax breaks or special services to individual employers. These discretionary tax breaks or services may be for varied purposes: encouraging new branch plants, business expansions, and new small businesses; or discouraging business closings or contractions. The bulk of these incentives are in the form of special tax breaks for new or expanding businesses, or to save and retain jobs in existing businesses. A good example of a business incentive is a property tax abatement for a new manufacturing branch plant, under which the new plant’s property taxes are reduced.

Some advocates for early childhood programs are categorically opposed to business incentives for local economic development. For example, Rolnick and Grunewald (2003) argue that business incentives to encourage economic development are “fundamentally flawed.”<sup>6</sup>

The position taken in this book is not as unfavorable to business incentives. Both business incentives and early childhood programs can promote economic development. Economic development benefits—higher earnings per capita for the residents of a state or local area—can be produced by boosts to the quantity and quality of local labor supply or labor demand. More and better jobs can result from early childhood programs that boost the quality of the local labor supply. This boost to labor supply will indirectly entice employers to create more and better jobs. But more and better jobs can also result from business incentive programs that boost the quantity or quality of local labor demand. Tax breaks or special services to individual employers may cause them to boost the number or quality of jobs.

Hence, both early childhood programs and business incentive programs may boost state or local earnings per capita. For both early childhood programs and business incentive programs, the issue is “bang for the buck.” Per dollar of resources, what boost to state or local earnings per capita is provided? How does this vary with different designs of early childhood programs, or of business incentive programs? How does this vary in different local circumstances?

## **THE ADVANTAGES OF THINKING AND ACTING LOCALLY**

Focusing on local economic development benefits is not simply a strategy for gaining support for early childhood programs from state and local business leaders and policymakers. Early childhood programs are a policy area in which it makes sense to have state and local governments take a strong role. As this book will show, many of the economic development benefits of early childhood programs are local. State and local early childhood programs may also be more innovative, effective, and flexible than a top-down federal program. The federal government should support state and local initiatives to improve early childhood program quality, data, and accountability. Well-run early childhood programs serve not only local interests, but also the national interest, so some federal financial support for early childhood programs is justified. But any federal intervention should be designed to allow for considerable local flexibility.

Conversely, some federal restrictions may be needed in order to ensure that business incentives advance national interests. As this book will show, for some business incentives, a state's pursuit of its own interests may take jobs away from other states and sizably damage the national interest. However, other business incentives may provide a greater boost to economic productivity and thus serve the national interest.

## **WHY CONSIDER EARLY CHILDHOOD PROGRAMS AND BUSINESS INCENTIVES TOGETHER?**

This book is addressed to two audiences: 1) the early childhood policy and research community, and 2) the economic development policy and research community. Both communities, I would argue, need to understand the other community's problems and programs. The book is designed so that a reader could read only the early childhood sections or only the business incentive sections. But I think readers in both the early childhood and the economic development communities will benefit from both topics.



The economic development community needs to understand the drawbacks of traditional business incentives. There are several drawbacks: the benefits of such incentives are sensitive to good design, the possible benefits of incentives are uncertain, the incentives do not have a particularly favorable effect on income distribution, the incentives have much lower benefits in local economies that already have enough job growth, and the benefits of many incentives are lower from a national perspective. But beyond that, economic development policymakers also need to understand the economic development case for early childhood programs: early childhood programs can complement business incentives by offering more benefits for lower income groups and more clear-cut national benefits.

The other side of the coin is that the early childhood community, too, needs to understand the economic development case for early childhood programs. Proponents of early childhood programs must understand this case to effectively argue for their programs to the business community and state and local policymakers. To understand the economic development case, the early childhood community needs to understand why the economic development benefits of more local job opportunities are so valuable. Moreover, the early childhood community needs to appreciate how well-designed business incentive programs may make sense from a local perspective and even a national perspective. Advocating for a balanced economic development strategy, which includes both early childhood programs and reformed business incentives, makes more sense than trying to abolish business incentives and replace them with early childhood programs.

Business incentives and early childhood programs should be considered together because they complement each other in a balanced economic development strategy. Programs to directly create jobs via business incentives should be complemented by helping local residents obtain the skills needed for those jobs, via policies such as early childhood programs. Some local economies may need more of a boost to labor demand, whereas other local economies may need more of a boost to labor supply. But most local and national economies will benefit considerably from strengthening both labor demand and supply.

## A ROAD MAP FOR THIS BOOK<sup>7</sup>

Chapter 2 explains why the benefits of local economic development are so important. Chapter 3 presents estimates that well-designed business incentive programs may, for each dollar invested, produce more than a \$3 increase in state earnings per capita.

Chapter 4 considers the economic development benefits of pre-K education, high-quality child care and early education, and nurse home-visitation programs for disadvantaged first-time mothers. The chapter presents estimates that such high-quality early childhood programs may, for each dollar invested, produce a \$2 to \$3 increase in state earnings per capita.

Chapter 5 considers what constitutes “good design” for business incentives and early childhood programs. How do various features affect these programs’ economic development benefits? For both business incentives and early childhood programs, the cost-effectiveness of these programs varies greatly with program design. Chapter 6 considers the implications of uncertainty: we don’t know for certain the benefits of either a new business incentive or an early childhood program. How can we reconcile the need for more research with the potential benefits from near-term expansions and reforms of early childhood programs and business incentives?

Chapter 7 considers the political problem posed because the benefits of early childhood programs are mostly long-term, whereas elections occur every two years. How can the benefits of early childhood programs be made more relevant to policymakers with a short-term perspective?

Chapter 8 considers the effects of business incentives and early childhood programs on families at different income levels. Will early childhood programs have greater social benefits and political attractiveness if they are targeted at low-income families, or made accessible universally? Based on current evidence, the chapter concludes that universally accessible pre-K education, compared to pre-K education targeted at low-income families, offers greater economic as well as political benefits.

Chapter 9 shows that the benefits of business incentives and early childhood programs differ greatly across local economies of different

sizes and different previous growth trends. Chapter 10 considers how the national perspective on a state's business incentives and early childhood programs may differ from the state's perspective. Under what circumstances do the spillover effects of one state's programs on other states justify federal intervention? The national perspective points to the need to regulate business incentives and promote early childhood programs.

Chapter 11 analyzes the ethical issues raised by business incentive programs and early childhood programs. Do these programs' interventions with individual businesses and families violate ethical principles? Chapter 12 shows how the approach used in this book to analyze early childhood programs can be used to estimate the economic development benefits of other human capital improvements. These other human capital improvements include better school test scores, increases in educational attainment, improved public health, and crime reduction.

Chapter 13 explains why the book's arguments and evidence make a case for a broad grassroots movement to improve early childhood programs. During the nineteenth and twentieth centuries in the United States, local economic development benefits were frequently invoked as arguments for creating graded common schools for all students and creating high schools that all students were expected to attend. History and research suggest that local economic development benefits can help support a new grassroots movement for early childhood programs.

## Notes

1. In referring to “local economic development,” I sometimes use that term as shorthand for “state and local economic development.” States are one type of location that can experience local economic development.
2. In this book, I refer to part-time or full-time programs for three- and four-year-olds that have a predominantly educational focus as “pre-K programs” or “pre-K education,” where “pre-K” is short for “prekindergarten.” Some of the quotations I use refer to such programs as “pre-K” programs, whereas other quotations refer to such programs as “preschool.” I avoid “preschool” because it seems a strange way to refer to a program that is predominantly educational in focus, and that in many cases is run by the public school system.
3. In writing this book, I have double-checked the numbers and simulations, and updated some numbers. Therefore, some of these new and improved detailed numbers differ modestly from results presented in my previous reports (Bartik 2006, 2008). However, these differences are modest enough that none of the previous qualitative findings of these reports must be altered. Even so, the numbers in this book should be regarded as more up-to-date and definitive estimates.
4. The Perry study has followed the lives of 123 high-risk children from African American families who lived near the Perry Elementary School in Ypsilanti, Michigan, in the 1960s.
5. In the benefit-cost analysis of the Perry Preschool program by Schweinhart et al. (2005, Table 7.8, errata-corrected version), 48 percent of the public benefits from the program are due to crime reduction. The percentage of the benefits from crime reduction would be even greater if nonmonetary costs to victims of crime were included.
6. From interviews with Art Rolnick, it is clear that his involvement in early childhood programs originally grew out of his opposition to business incentives. Opposing business incentives leads to the logical question of whether there is any alternative. When asked “How does a person in your position . . . come to focus on children?” Rolnick (2008) replied as follows: “It was an accident . . . Much of my work over the last dozen years has raised questions about . . . local economic development initiatives . . . We argued that these types of economic development programs do not create jobs, they just move them around . . . The work we were doing on the economic bidding war led us to ask the question, ‘What would be the best way to promote local economic development?’”
7. In addition to the book text, there are appendices that provide additional theoretical and empirical detail on this book’s arguments and estimates. These appendices are available on-line from the Upjohn Institute at <http://www.upjohn.org/investinginkids/appendices.html>, or via e-mail from the author. On request, a hard-copy version of these appendices is also available.