AMERICAN KIDS, WORKFORCE QUALITY AND FISCAL SUSTAINABILITY: A TEN-YEAR PLAN FOR THE INVEST IN KIDS WORKING GROUP -- YEAR TWO

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Working Paper No. 4

Committee for Economic Development

Invest in Kids Working Group

www.ced.org/projects/kids.shtml

Revised

January 30, 2005

Original

September 24, 2004

DRAFT FOR COMMENT AND DISCUSSION

Mr. Dugger is a Committee for Economic Development Trustee. The author thanks Steven Barnett, William Gale, Jagadeesh Gokhale, James Heckman, Lawrence Katz, Charles Kolb, Laurence Kotlikoff, Lawrence LaRocco, Sara Mead, Sandy Newman, Michael Petit, Lee Price, Lee Sachs, Isabel Sawhill, Paul Sheldon, Eugene Steuerle, Richard Toikka and Sara Watson for helpful comments preceding and during the drafting of this paper. Despite their efforts there are, no doubt, errors. The views expressed, in error or not, are solely those of the author.

Contents in Outline

I. Introduction

The Invest in Kids Working Group is an informal collaboration of economics, finance, and business people from around the country focused on determining the contribution of youth human capital formation to economic growth and its implications for workforce quality and fiscal sustainability. The goals of the working group are: to inform economic policy makers of the high returns to early childhood development and to increase the effectiveness of early childhood development advocates. The working group's efforts are supported by the Committee for Economic Development and the Pew Charitable Trusts.

Initial evidence suggests that spending on early nurturing, health, and education has tangible economic returns as high as or higher than alternative options. Early childhood development appears to be essential to maximizing the number of future American workers who can compete effectively in a global marketplace. Successful youth human capital development would instill the kind of long-term thinking necessary to achieve needed spending compromises. This together with stronger growth would make it easier to achieve fiscal sustainability and avoid crisis.

What does "investing in kids" mean? Probably the widest ranging recent discussion of youth human capital development is the Brookings Institution's *One Percent for Kids: New Policies, Brighter Futures for America's Children*. (Sawhill 2003) For our purposes, investing in children includes all forms of private and public spending on early childhood parenting, nurturing, health, and education.

It is becoming increasingly clear that investments in kids do much more than just give children a good start in the world they will enter as young adults. Research suggests that enriched early-childhood programs can significantly reduce the likelihood that participants engage in criminal activity many years later. This implies an obvious reduction in tangible *costs* to a society for police, courts and jails. We all intuitively understand there are also tangible *benefits* when a child succeeds in joining mainstream society in a productive role. These include simple societal satisfaction and validation, to be sure, but more importantly for our present purposes, they include clear and tangible economic gains associated with productivity.

Investing in kids appears to have quantifiable economic benefits of immense proportions. The implications are sobering and exciting. Their extent has been explored by many researchers, including members of the working group, but at the boundaries of this research, the implications remain unexplored. Finding these boundaries and responding with a deliberate national strategy is the central purpose of the Invest in Kids working group. The purpose of this paper is to describe what our explorations suggest so far, to sketch out what they imply we need to do next, and to provide a plan for success by 2015 in making our nation's highest priority the life success of every American child.

II. Thinking Long-Term

- *Economic growth depends on human capital and steadily rising workforce quality.*
- *Investments in kids during early childhood have a direct effect on the quality of the workforce and a quantifiable economic impact through direct and ancillary benefits.*
- *The true importance of these connections becomes clear only in a long-term context.*

Any Main Street business leader will confirm this fundamental point: Economic growth depends on "human capital," the label we use as a shorthand description of the resource represented by people and their activity and productivity.

The U.S. Chamber of Commerce stresses the urgency of an educated, well-trained workforce in its 2002 report, *Keeping Competitive: Hiring, Training, and Retaining Qualified Workers in 2002*. The role of early education in competitiveness and growth is highlighted in reports by the Business Roundtable: *Early Childhood Education: A Call to Action from the Business Community -- Why America Needs High-Quality Early Childhood Education*; and the Committee for Economic Development: *Preschool for All: Investing in a Productive and Just Society*. The central theme in these reports is the need for voters and policy makers to think about America's economic future in a disciplined, long-term manner.

The plan and rationale presented here build on this notion – that early childhood education matters to future economic growth, and hence to us as a nation, as a collection of states and communities, and as individuals. A positive relationship between education generally and growth has been conclusively documented by decades of research. More specific recent research indicates that positive family circumstances and preschool education significantly improve later education success, job performance and earnings, and reduce grade repetition, youth crime, and other indicators of likely failure.

As already intimated, some of the strongest findings relate to crime. (Heckman and Masterov, 2004) Crime appears to be strongly linked to poor family environment and education. Crime is a drag on productivity. By strengthening parenting and families and equipping economically-disadvantaged kids with the social and cognitive skills they need to succeed, crime can be reduced and future productivity increased. Though crime is just one dimension of the relationship between youth human capital and growth, it is strongly evidenced by available data. I believe that like the tip of an iceberg, it is simply the most visible sign of the positive effects of early investment in children in all other dimensions.

Beyond reducing crime, early life intervention is probably the best and least expensive way to improve school performance, increase high school graduation rates, job performance, and adult productivity. But this promising tool comes with a built-in challenge – there is a 15-year gap between the time early education investments take place and the point when benefits are clearly evident. Though the interventions will likely have near-term effects such as reducing class-room disruption, the need for guards in school, and grade repetition (which in turn will make traditional schooling more cost-effective), the more tangible material benefits will not show up until children reach young adulthood.

Fifteen years is beyond the planning horizon of most CEOs and certainly beyond the re-election horizon of all politicians. This may explain why individual business leaders are notably inactive in supporting public and private efforts to invest in kids, or to use our catchphrase, to increase youth human capital development. Long-term growth considerations simply have little weight in near-term CEO time allocations. Similarly, two-, four-, and six-year election cycles make near-term constituent concerns the top priority. Though most voters are parents, almost none of them have any awareness of an emerging and somewhat startling proposition: that they and their children, regardless of their own economic class, are extremely dependent in economic terms on the lifetime economic success of poverty-level kids. Consequently, most parent-voters do not and will not hold politicians responsible for deteriorating general education, rising youth incarceration, and falling job performance.

The challenge of the Invest in Kids Working Group is to clarify the economic importance of maximizing the number of children that are on track to becoming productive adults, and to communicate this reality successfully to business and political leaders. For business people this will require showing why investing in kids matters to their businesses now. For elected officials it will require informing the debate and presenting them with voters who understand and will vote for what is best for their children. If leaders, businessmen and voters are thinking long-term the conclusions seem clear. The challenge is to get them to think in these terms.

III. The Problem and Promise of Youth Human Capital Formation

- *Educational attainment is deteriorating. Without significant policy changes the current shortage of educated workers will worsen.*
- *Current entitlement and tax expenditure commitments will force reductions in future spending on youth health and education.*
- *Recent income tax actions transfer wealth from large numbers of middle and low income families to an upper income minority. As a result, future middle and lower income families will have fewer resources to raise and educate children.*

This paper accepts without further re-examination the well-established premise that economic growth is inextricably linked to human capital. This notion's equally valid corollary is that steadily increasing workforce quality is crucial for maintaining competitiveness through its effects on improved productivity and economic mobility. Having accepted those two propositions, we find ample reasons for worry.

Bradford Delong, Claudia Goldin, and Lawrence Katz (2003) in the Brookings Institution's *Agenda for the Nation 2003* point out that beginning with children born around 1950, the growth in U.S. educational attainment slowed markedly. By the 1980s the educational attainment of American workers was actually declining. They point out that "[b]ecause the increasing quality of the labor force contributed significantly to economic growth in the United

States throughout most of the twentieth century, the slowdown in the growth of educational attainment threatens to retard future economic growth."

Pedro Carniero and James Heckman (2003), in *Inequality in America: What Role for Human Capital Policies?*, argue that data showing high school graduation rates improving are misleading. The data include GED recipients as graduates, but GED graduates perform no better than dropouts. Without GED recipients, the high school drop-out rate is increasing.

Because of recent tax and entitlement policy actions and the soaring deficits they entail, government programs that provide education, nutrition, and physical and mental health care, almost universally regarded as productive investments in America's future, will have to be cut in future years to pay for mandated entitlement, military, and interest expense spending. The seriousness of the coming budget squeeze is documented in an Urban Institute paper by Gene Steuerle, an Institute Senior Fellow and co-director of the Urban-Brookings Tax Policy Center. Steuerle (2004) shows that by 2011 there will be nothing left in the budget for children or any other related domestic need if current elderly promises are met, current corporate and personal tax levels are maintained, and defense requirements remain at today's levels.

William Gale and Laurence Kotlikoff (2004), in an Invest in Kids Working Paper, also examine the implications of the tax and budget decisions of recent years on growth and youth development spending. But they go one important step further, presenting a finding that may be the least understood yet most important aspect of recent tax changes on long-term human capital formation. Their finding concerns an intra-generational transfer of wealth from middle and moderate income families to upper income families.

Gale and Kotlikoff argue that recent and proposed fiscal policies – the tax cuts, proposals to make them permanent, and the Medicare legislation – will hurt the economic outlook for most of today's children and future generations. The policies will have almost no impact on near-term economic growth, but will weaken the longer-term outlook. The policies will significantly reduce the funding available to pay for children's programs. They will redistribute resources from future to current generations and, within each generation, from low-and middle-income families toward an upper income minority. Few concerns are expressed about the ability of upper income families to nurture and educate their children – to invest in their own children directly. The concern is about the numerically much larger number of middle and lower income families.

Worldwide competition among producers of goods and services will continue to intensify in coming years. Advances in global transportation and communication will continue to shrink the time and psychic distances between people. Competition at every level, especially in labor markets, will increase. The only feasible way to bridge the gap between the claimed benefits of free and open trade and the observed downsides to those who lose jobs, is to make America as competitive as possible. Because more and more jobs will involve processes and ideas of increasing complexity rather than materials or even physical strength, education is crucial.

Alan Greenspan speaks often about education, trade, and economic growth, and in the opinion of many, his comments on education are as insightful and important as anything he has ever said on any topic. Earlier this year he commented:

> …history shows, our economy is best served by full and vigorous engagement in the global economy. Consequently, we need to increase our efforts to ensure that as many of our citizens as possible have the opportunity to capture the benefits that flow from that engagement. …one critical element in creating that opportunity is to provide rigorous education and ongoing training to all members of our society. The proposal is not novel: it is, in fact, the strategy that we have followed successfully for most of the past century and a strategy that we now should embrace with renewed commitment. (Greenspan 2004)

The critical connection to the concerns of the working group is our conclusion that the nation is being dangerously complacent when it assumes that education of the type needed to ensure workforce quality, and thereby international competitiveness, can wait until children are older, or can rely unassisted on present systems that have been shown to be delivering inadequately. Neuroscience and social science findings indicate clearly that human cognitive and non-cognitive skills are acquired cumulatively: early learning enables later learning. James Heckman, the University of Chicago professor and Nobel Prize winning economist, emphasizes beginning early. Future competitiveness and growth depend on young adults with strong teamwork and social skills. These skills are most effectively acquired in early pre-kindergarten years and appear to facilitate acquiring stronger cognitive reading and math skills. The earlier in life socialization and education investments are made, the greater the economic returns will be. In his words:

> …the rate of return to a dollar of investment made while a person is young is higher than the rate of return to the same dollar made at a later age. Early investments are harvested over a longer horizon than those made later in the life cycle. In addition, because early investments raise the productivity (lower the costs) of later investments, human capital is synergistic. … Learning begets learning; skills (both cognitive and noncognitive) acquired early on facilitate later learning. (Carniero and Heckman 2003)

Harvard University President and former Treasury Secretary Lawrence Summers suggests that the economic success of recent decades reflects the effects of a wave of high-quality human capital whose impact is diminishing:

> …to an extent that we have not fully appreciated, we have had rising human capital as a wind behind our backs in improving the performance of the economy over the past twenty years, and we will not have a similarly large thrust from increasing levels of human capital in the future. Essentially, the retirement of those born early in the century proved to be a boon to average human capital, but those individuals have all retired now, and a major source of productivity growth has dried up. Since we can expect smaller gains in the future from an increased quantity of human capital, it seems we must turn to improving the quality of human capital, both to address the issues of inequality that we discussed in the symposium and also to fuel growth. (Summers 2003)

IV. America's Children Have Economic Value

- *To make economic and investment decisions that maximize growth we need to know the "value" of a child and understand investments in children in quantified terms of future growth, job creation, and revenue generation.*
- *Current knowledge about the economic value of children and early investment in them is based on very limited information.*
- *A preschool, educated, poverty-level child appears to be worth at least $234,000 in present value terms to local, state, and federal government budgets and more to the economy as a whole, present and future.*
- *A 3-year-old child is worth about $660,552 in terms of present value lifetime compensation.*
- *The federal government needs to receive about $260,000 more in present value dollars than current tax laws provide from a 3 year-old to make current budget plans work.*

We are at a frontier of economic analysis. We can analyze the contribution of children and investments in children to economic growth theoretically, but attaching hard numbers reliably is difficult. Samples are small, distinct, and non-random. The various interventions involve different treatment strategies and have some markedly different outcomes.

Though we have only scratched the surface, the insights we do have are encouraging. They come from three different sources: (1) evidence of improved later-life performance resulting from high-quality preschool provided to disadvantaged young children; (2) estimates of the present value of lifetime earnings; and (3) generational accounting estimates of what the U.S. government needs to receive from current and future children in order to make its current budget plans work.

The Economic Value of Preschool

Of all the early childhood investment strategies, the most thoroughly researched is high-quality preschool. High benefit-to-cost results and high "investment returns" from spending on preschool education for poverty-level children have been extensively documented. Three projects have been the focus of most attention: the Perry Preschool Program, the Abecedarian Early Childhood Intervention, and the Chicago Child-Parent Center Program. Because there are only three long-term experiments to study, the statistical strength of the findings is tenuous. Still, each experiment produced conclusions based on careful monitoring of the year-by-year performance of preschool graduates over several decades.

The economic value of high quality preschool generally takes two forms: (1) improvements in state and federal budget circumstances as a result of lower criminal justice costs and higher income tax and other revenues, and, (2) improvements in the job and earnings performance of the participants themselves.

Long-term studies by Steve Barnett at the National Institute for Early Education Research, Clive Belfield at Columbia University, Art Rolnick at the Federal Reserve Bank of Minneapolis, and Lawrence Schweinhart at the High/Scope Project, show that poor children who attend high-quality preschool are more successful in school and in life, and less likely to be involved in crime. Higher earnings and lower crime rates, in turn, mean higher tax revenues and lower police and prison costs.

Graduates and control subjects of the Perry preschool project have now been monitored for over 40 years. The results show Project investment returns of at least 16% per year to local, state and federal governments, mainly in the form of lower criminal justice costs and higher tax revenues, and returns of about 3% per year to the child in the form of higher earnings on the job.

The dollars and cents implications are important. It would cost today about $18,000 to provide a poor child with a two year Perry-quality preschool education. That $18,000 compounded at 16% per year for 30 years and then discounted at the long-term average cost of government borrowing, say 6.5%, is about $234,000. This is the government budget benefit in present value terms -- today's dollars – of more tax revenues and less crime. The minute a poor child graduates from a good two year pre-school program, he or she is a $234,000 value to local, state and federal taxpayers.

Some say that the Perry program was a hot-house project and the results cannot be trusted. Two comments can be made in response -- first, the more the Perry results and those of other early education projects are studied, the higher the returns appear to be, not lower, and the more robust the results appear to be. Second, the value of social and cognitive skills established early in a child's life is probably rising as a result of the increasingly sophisticated and technological nature of the global economy. The rise in this value is reflected in the so called "education premium". Twenty years ago the value difference, or "premium" in terms of lifetime earnings, of a college degree over a high-school degree, was about 40%. Today that "premium" is over 70% and is apparently still rising. If the Perry experiment were repeated today and the graduates tracked over the next 40 years, most likely the economic returns would are greater as a result of the rise in the "premium" on higher social and cognitive skills.

These findings may have relevance to Head Start. Nationwide, Head Start serves 912,000, about 65% of the 1.4 million qualifying low-income children. It invests only $6,900 per year per child. This is about $2,100 less than the Perry program would cost in today's dollars. For reasons that are well understood, Head Start, except in a few situations, is not as good as Perry. If the per child cost difference reflects the quality difference, Head Start provides a public return of about $182,000 in today's dollars per child.

The Lifetime Earnings Value of a Child

In a market economy, one measure of a person's economic value is how much they get paid. It is a narrow concept. It excludes important aspects of a person's economic value such as their value as a parent or citizen. However it is easily understood and can be estimated econometrically. It is the basic economic value created by parents, teachers, and everyone else involved in raising a child.

In the third Invest in Kids Working Paper Richard Toikka, president of Metropolitan Legal Services and a consultant to the Lewin Group, and Andre Neveu, estimate the economic value of a representative American 3-year-old with a methodology commonly used by forensic economists – a "life-participation-employment" (LPE) analysis. The estimated present value lifetime earnings, not including employer-paid benefits, for various ethnic groups are:

Lifetime Earnings Value of a 3-year Old American Child

	White Non-Hispanic	Black Non-Hispanic	Hispanic	Other
U.S.-Born Men	$612,741	$390,078	$421,712	$461,968
Foreign-Born Men	$894,208	$432,887	$255,764	$851,235
U.S.-Born Women	$402,023	$343,673	$253,014	$342,544
Foreign-Born Women	$428,998	$322,659	$105,185	$470,553
National U.S.-Born	$464,197			

Adding employer-paid benefits to lifetime earnings, the present value estimate for National U.S.-born Americans is $660,552. Thus, Toikka and Neveu's (2004) results show that an average child born in the United States, who was 3 years old in 2000, could expect over his or her life to earn a present value of $464,197 in money earnings, and $660,552 in total compensation.

V. The Value of a Child to National Fiscal Sustainability

- *Government indebtedness threatens growth and the investment in people needed to attain it.*
- *The financial gains from investing in kids can reduce the public finance gap.*
- *The long-term view implicit in investing in kids sets the stage for broader fiscal responsibility.*

Federal legislators have created a federal budget architecture that spans many generations, and it is widely recognized to be unsustainable. Projected federal spending commitments exceed projected revenues by a large margin. The present value of this gap has been estimated by Gokhale and Smetters (2003) to be about $44 trillion as of the end of fiscal year 2002.

In the first of the Invest in Kids Working Papers, Jagadeesh Gokhale, then a Senior Advisor at the Federal Reserve Bank of Cleveland and a Visiting Scholar at the American Enterprise Institute, projected the gap onto current and future children and estimated the per child share of the gap by age. The gap can be closed by enacting policies that range from raising taxes on current and future children to reducing benefits for current and future individuals and businesses. How the gap is closed will affect the expected adjustment burden on current and future children. Accordingly, Gokhale provided maximum and minimum adjustment estimates:

<u>Public Finance Gap Facing an 18-Year Old American</u>

	Maximum	Minimum	Average
Boys	$404,800	$360,300	$382,550
Girls	$190,300	$ 66,800	$128,550
Average	$297,550	$213,550	$255,550

<u>Average Per Child Public Finance Gap by Age</u>

Age	Amount
Newborn	$ 262,800
3-years	$ 260,100
6-years	$ 259,100
9-years	$ 256,900

12-years	$ 257,200
15-years	$ 257,000
18-years	$ 255,550

These estimates provide an important context in which to evaluate the adequacy of federal child development spending as well as the sustainability of current budget policy. It is certainly a statistical stretch to compare the Perry Project value of a preschool, educated, poverty-level child to Gokhale's estimate of the per child fiscal gap, but the comparison is still instructive. By spending $20,000 now, much of the adjustment facing poverty-level children can be achieved. The total adjustment achieved by educating poverty-level children would likely be only a small amount of the total adjustment needed to close the long-term fiscal gap. The amount, nevertheless, would be significant, and it would reduce the amount of tax increases or benefit cuts that have to be imposed and make it easier to achieve a political compromise on long-term entitlement and tax expenditure commitments.

Gokhale's per child estimates can be viewed as conservative, for two reasons. First, they contain fairly optimistic assumptions about future U.S. productivity and economic performance. Most likely, as the American society ages, we can expect productivity and growth to slow. Consequently, the tax revenue estimates in Gokhale's analysis are likely to be on the high side and the fiscal shortfall estimates on the low side. Secondly, his Invest in Kids paper does not take into account the expansion of Medicare benefits enacted in 2003. Consequently, his entitlement spending estimates are likely to be on the low side.

Peter G. Peterson's best selling book *Running on Empty* argues that the U.S. government is essentially bankrupt. Peterson's point is simple: we do not have, nor will we have in the future, enough productive young people to finance the massive debts we are accumulating. He warns:

> Dreary as it is…a 'soft landing' is the very best outcome we can hope for so long as America's future fiscal path and national savings rate remain unchanged. It is quite possible, in the opinion of many economists, that the dynamic of gradual adjustment will at some point be short-circuited by market psychology – triggering a sudden loss of confidence, followed by a financial and economic crisis. (Peterson 2004)

Peterson is not alone. Some of the best thinkers in America share his concerns about fiscal sustainability. These include Sen. John McCain, former Federal Reserve Chairman Paul Volker, and former Treasury Secretary Robert Rubin. Rubin's book *In an Uncertain World* warns about a “day of reckoning.” He writes, “When that crisis arrives, we will either have to make the decision to increase revenues substantially – at what may well be an inopportune time – or face severe and prolonged economic tribulations.” In an article with public finance expert, Peter Orzag, and noted economic forecaster, Allen Sinai, Rubin writes, “The adverse consequences of sustained large budget deficits may well be far larger and occur more suddenly than traditional analysis suggests.”

The answer to concerns about fiscal priorities is the same as the answer to workforce quality – establish a long-term perspective. Thinking about investing in kids *forces* a long-term perspective. And this perspective itself leads to the conclusion that we will need concerted action and every tool at our disposal to ensure fiscal stability, including the tool implicit in the absolute financial benefit we can realize by investing in our children.

VI. Our Daunting Political Challenges

- *Research suggests that children are voters’ top personal and political priorities.*
- *The mechanisms of political science limit political activism by a public not yet fully aware of the impact of investing in kids.*
- *The way to break through the political arithmetic is to inform decision-makers and help build a broad coalition that understands the economic benefits of youth human capital development.*

If we accept that workforce quality and responsible fiscal priorities are crucial and agree that early childhood investments have high growth returns, what prevents the President and Congress from taking needed actions? The answer, as many point out, is politics – special interest politics, which we almost all say we detest, and representative democracy, which we generally say we support.

Primacy of Personal and Political Concerns about Children

A few years ago, focus group researchers asked people, "In your judgment what should be the government's highest priority?" More than 80% of the answers involved national security (*e.g.*, "capture Osama bin Laden") or the economy (*e.g.*, "get the stock market back on its feet").

The subjects were then asked, "Why does that matter to you personally?" The answers usually consisted of greater detail about the first answer, such as expressions of concern about stopping terrorism and restoring business confidence.

The subjects were asked again, "Please tell me why [the previous answer] matters to you personally." The answers then generally consisted of more specific local safety concerns and the success of their employer companies. The subjects were asked the same basic question, "Why does that matter to you personally?" again and again.

The final result was remarkable. At some point almost all the subjects answered that the reason their last answer mattered to them personally was the well-being of their children or children in their family. When asked, "Why do your children matter to you personally?" researchers received the most interesting response of all – no answer. In nearly every case, the subjects became defensive. They joked about hidden cameras or became plainly impatient, indicating they were feeling threatened. Regardless of the answer or reaction, the body language said, "You're in my personal space and I'm not playing this game anymore."

The researchers determined that their subjects were actually not able to give verbal answers easily to questions about why their children are important to them. This is not surprising to psychology professionals. The priority of children is deeply visceral and not easily talked about.

The researchers concluded that children were their subjects' highest personal priority. Why should Osama bin Laden be caught? For my children's safety! Why should the government do something about the stock market? For my children's future! The researchers also concluded that the results confirmed why concerns about children in issue polls are consistently at, or near, the top of lists of voter priorities. The defensive non-answers indicating the subjects' highest personal priority were also clear indications of their highest political priority. But politicians have known this for years – it's why they like to be photographed kissing babies.

In issue polling, key words are used to represent major subject areas. A questioner generally reads a list of key words and asks the subject to rank them by personal importance. When poll questioners say the word "education" they mean education and child well-being generally. In a surprising number of instances, voters put "education" at the top of their issue concerns. The following question and its results, from a recent Newsweek poll, are typical:

> "Now I'm going to read you a list of issues. Please tell me how important you think each will be in determining your vote for president this year. What about [see below]? Will this issue be very important, somewhat important, not too important, or not at all important in determining your vote?" Items rotated

	Very Important %
The economy	77
Education	72
Health care, including Medicare	70
Terrorism and homeland security	69
American jobs and foreign competition	68
The situation in Iraq	63
Taxes	55

In writing his best-selling book *Running on Empty*, Peter Peterson was not responding to a focus group researcher, but he might as well have been. The most emotionally-powerful argument for doing something about deficits and entitlement excesses, and the argument he returns to again and again, is the risk and burden U.S. fiscal policy puts on current and future children, and specifically his grandchildren. Some examples:

> And when people tell me that these programs are untouchable because they constitute a "contract" between generations, what I want to know is: When exactly did the younger generation agree to this contract? (Peterson, p. 157)
>
> But then the ultimate tax hikes on the next generation would be much higher, enough (as we mentioned earlier) to wipe out all of their pretax wage gains. Try floating that idea with your kids at the dinner table this evening. (Peterson, p. 159)
>
> Thus far, unfortunately, the we-first generation of senior citizens has largely declined to set an example of civic self-restraint for the younger generations who will ultimately bear the cost. (Peterson, p. 192)

Voting and Coalition Mechanics

Concern about children may be the top personal and political priority of most voters, but as we have seen, in workforce quality and fiscal issues this seems to have little impact on policy. This is even more surprising given the fact that voting parents outnumber seniors by a wide margin. Phillip Longman (2004) of the New America Foundation points out that exit polls from the 2000 election indicate that parents with children under 18 comprised 39% of all votes cast and people over 65 accounted for only 14% of voters. No doubt parents want the best health and education for their children and do not want budget trends to squeeze out resources for kids. But parents do not consistently vote this way.

Longman attributes this phenomenon to a society-wide "perception that parents are just another kind of selfish consumer, and that we would be better off with fewer of them, particularly if they are of another race or ethnic group. Thus, it seems to many people, including many parents themselves, that any assistance parents receive in raising their children – public schools, tax credits, family allowances – is a form of subsidy." To these perceptions, Longman adds another reason very relevant to us, a near complete ignorance of the "deepening dependency all people have on both the quantity and quality of other people's children."

Longman's insight that voters do not know how much they are dependent on the economic success of their own and other peoples' children is crucial. It may partially explain why parents vote the way they do, but it certainly makes it clear that any national effort to upgrade youth human capital investment should include explanations of why correcting budget priorities is urgently needed to prevent youth spending cutbacks.

To Longman's insights on our potential political challenges we can add familiar mechanics of political science – issue division, coalition politics and two to six-year re-election horizons. A central reason parents seem to not vote in their children's best interest is that they are trying their best to do so, but their votes are fragmented over a wide range of issues. It is hard to know how individual issues affect the long-term well-being of their children. Unlike seniors, parents and kids are not organized nor are they represented by unified advocacy groups like AARP.

Issue fragmentation works like this: Let's say parents have 40 votes and seniors have 15, and a candidate needs 51 to get elected. Parents are concerned about job security, employee health insurance, energy costs, local crime problems, and taxes, to mention just a few of the likely items. Each of these issues has a strong, plausible, direct and observable bearing now on the well-being of a voter's children, and with the right message a candidate knows he can get eight votes per issue. Meanwhile, let's imagine that seniors, encouraged by AARP, are focused on only one issue, that of expanding Medicare to cover prescription drugs. With the right prescription drug message, a candidate knows he can get all 15 votes from seniors.

Is a candidate going to jeopardize 15 senior votes (and AARP's support) by calling for a halt on Medicare expansions in an effort to get parent votes? No. Candidates are going to bear down hard on job security, employee health insurance, and other parent issues in an effort to get at least 36 parent votes, and call for "reforming" Medicare to provide prescription drug coverage to win 15 senior votes. The result: 36 + 15 = 51. The candidate wins and immediately begins planning how to do the same thing again in two, four or six years.

Invest in Kids Working Group members who raise their hands to talk about workforce quality and fiscal priorities in a political gathering made of today's parents are likely to be listened to with nothing more than polite indulgence, if at all. If pressed, parents will probably tell them flatly that keeping a job or holding onto health insurance affects their children *right now*. And political candidates will explain that as important as implied present-value tax liabilities are, seniors work as an organized coalition and parents do not.

The same forces are at work regarding corporate and other tax expenditures. Businesses work in organized coalitions.

It is the same in Congress, the administration and the courts. There, the mechanics involve more complex agenda management, lobbying, blocking minorities, bureaucratic dynamics, and coalition politics, but the results are the same. Increasing the growth of early childhood investment spending is viewed as an increase in "government spending" and roundly opposed. Reducing the growth of elderly programs is an "unbearable cut" supported only by think-tank experts. Rollbacks of corporate tax expenditures, no matter how well justified, are "tax increases" that die in committee.

In this context the position of some senior citizen advocates is important. They are fully aware of the trends and imbalances identified by Steuerle (2003) and Gale and Kotlikoff (2004) and many understand that adjustments may be needed. They understand and are open to discussing reforms of a wide variety. A point they stress is the word "benefits" must not be too narrowly interpreted. For them the issues of economic growth and fiscal sustainability are not about senior benefits alone. They agree a case can be made that senior benefits involve payments to the least productive members of society. But they insist on two things. They insist that some of these payments serve to replace payments that would be made by middle-age people for aging family members and therefore the benefits reduce family burdens and increase resources available for children, which arguably are society's highest present value economic asset. Second they insist that there are many other arguably low return benefit allocations in the form of personal and corporate subsidies, tax expenditures and government spending. If sustainable economic growth is the goal, they insist that all benefits provided by law be on the table for negotiation and weighed in terms of their contributions to sustaining growth.

Regardless of how a negotiation process is framed, the political arithmetic has to be overcome. A promising way to do this is to inform participants and decision makers and help build a coalition that supports youth human capital development. Research and communication are the support pillars. The primacy of personal and political concern about children is the energy. The time to build the needed information base is now.

VII. An Invest in Kids National Action Plan

- *A plan incorporating research, communication, and advocacy to make the life success of every American child our highest priority by 2015.*

Having covered, in summary fashion the salient points of "why", it is time to be more specific about "how". To address urgent workforce quality and fiscal sustainability concerns by investing more in kids will require a sustained national effort. Is it reasonable to think that it is possible to dramatically change U.S. policy and resource allocations? History says, yes. There are many examples of successful education, communication, and advocacy efforts. How long might it take? Over the past 25 years, the shortest major policy and resource allocation change was probably the War on Terror – about one month. The longest was probably the first budget reform process. From early 1980s deficits to the 1990 budget summit and enactment of the Budget Enforcement Act took about ten years. Some would argue this is an example of success, and they would be right. In many respects the Invest in Kids project is a component of a second major budget reform wave. A more typical example was the S&L problem – from point of recognition to legislative solution, it took about six years. History is clear: with concentrated effort, information and communication, policies and resource allocations can be changed. Changing policy to capture the full economic benefits of youth human capital development could take until 2014 as the plan outlined below contemplates.

The specifics of the plan include partnership development, research, policies and programs, communication and advocacy. Broad strategic partnerships are needed to maximize effectiveness. Additional research is needed to refine understanding and identify the best investment mechanisms. Policies and program approaches need to be developed to optimize legislative action and service results. An effective communication strategy is needed to inform partners and decision makers and lay the ground work for implementation of local, state, and national policies. We begin immediately:

AN INVEST IN KIDS NATIONAL ACTION PLAN

January 2005 through December 2014

Phase One – Annual Conferences

Annual conferences on building the economic case for early childhood investments are needed. The first conference was held on December 3 2004 and was a significant success.

Phase Two – 2005-2006

A. Partners. Identify partners in a national effort to increase the number of healthy, educated, team-compatible, and change-oriented young adults in the future and establish a framework for the long-term thinking needed to accomplish this. Potential partners include –

1) Parents and guardians, and advocacy groups that represent them.

2) Companies whose futures depend on maintaining U.S. workforce competitiveness and fiscal sustainability.

3) Private and public providers of child care, health, education, family, parenting, and other relevant services.

4) Non-profit and for-profit institutions and companies involved in child health, education, family development, job-training research and policy development, and institutions carrying out workforce quality or fiscal sustainability policy research.

B. <u>Research</u>. Establish and begin to carryout a multi-year research agenda. (See the Research Agenda, immediately below.)

C. <u>Communication and Advocacy</u>. Design and obtain broad support for an effective communication and advocacy program that involves all aspects of America's youth development sector. The program will

1) Provide those in the youth development sector a full understanding of the economic value their work creates.

2) Inform sector participants about which interventions provide the greatest economic value.

3) Enable participants to work together effectively to inform policy discussions and achieve needed legislative outcomes.

Phase Three - 2005-2008

A. <u>Research</u>. Complete research on the economic value of children and early childhood health and education interventions.

B. <u>Policy and Programs</u>. Complete proposals for delivering and paying for youth human capital development services.

C. <u>Communications and Advocacy</u>. Begin implementing the C & A program including initial introduction of legislation establishing program approaches supported by project partners.

Phase Four - 2008-2012

A. <u>Enactment</u>. Obtain enactment of state and federal Invest in Kids policies and programs to address workforce quality and fiscal sustainability challenges.

B. Pilot operations. Initiate operations of Invest in Kids programs in at least several states.

Phase Five - 2008-2014

A. Review. Review performance.

B. Fine-tune. Modify policy and program goals as needed.

C. Enactment. Obtain nationwide enactment of state and federal Invest in Kids policies and programs to address workforce quality and fiscal sustainability challenges.

RESEARCH AGENDA

1. **Macroeconomics --** Workforce Quality and Fiscal Sustainability

    a. What is the economic value of a child and early childhood health and education interventions in terms of economic growth, job creation, and revenue generation?

    b. Are there aspects of current state and federal budget plans and spending policies that diminish future workforce quality and economic growth?

    c. What long-term public finance issues are raised by budget conflicts among senior entitlements, corporate tax expenditures, personal tax rates, and increased youth human capital spending?

2. **Industry sector --** Identify the child development sector. How large is it? What amount of U.S. GDP does it account for? At national, regional, and state levels, how many people are involved or employed in raising and educating young children? What can be said about this sector's productivity growth and job creation history and potential?

3. **Microeconomics --** What are the economic returns on specific investments in children? How effective are current policies?

    a. Can the micro returns on specific programs be generalized to the general population of American children? What do returns look like when they are scaled up nationally and include the costs of thorough licensing, inspection, and performance testing?

    b. What are the relative contributions to economic growth of specific youth human capital investment strategies?

    c. How should early childhood expenditures be compared to other development projects considered by federal, state and local governments?

4. **Programs and Policies --** What public and private policies and institutions are needed to assure the best delivery of early childhood investment services? What is the private sector's role?

    a. Do earlier U.S. capital development efforts such as the interstate highway system or housing have lessons for a 21st century youth human capital development effort?

    b. What incentives and institutions would enable private companies and private finance to deliver high quality child development services on a large scale?

    c. Are current Legislative branch committees and Executive branch institutions adequate for effective consideration, enactment, and implementation of early childhood development programs and incentives?

5. **Finance --** How might youth human capital investments be financed?

a. How much of the financing should be done by children or their families? How much should be done by state and federal governments or by companies that benefit from the investments longer-term? What are the most promising financing options for paying for investments in kids and what are the pros and cons of each?

b. Are new federal and state financing institutions needed? Is there a need to put spending on children on a level playing field with other spending such as senior entitlements, corporate tax expenditures, military spending, and particularly those that grow annually with no review or appropriation?

c. What state and/or federal institutions or information are needed to address political obstacles that reflect inabilities to bring long-term considerations into current political decisions?

INFORMATION AND ADVOCACY AGENDA

To achieve success, we need to –

1. Create an informed and unified youth human capital coalition, including parents, guardians, private and public providers of child care, health, education, family, parenting, and other youth development services, and non-profit and for-profit institutions and companies involved in child health, education, family development, job-training research and policy development.

2. Change the dialogue to stress family strengthening, early skill development, and positive externalities for general education effectiveness, reduced crime, greater productivity, and stronger future growth.

3. Through information and communication help build political strategies that make use of the primacy of personal and political concern about the well-being of children and support reelection of legislators who are working to strengthen economic security by voting for legislation that increases early childhood education and future productivity.

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