THE PEW CENTER ON THE STATES

ISSUE BRIEF

PARTNERSHIP FOR AMERICA'S ECONOMIC SUCCESS

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.
—Timothy Bartik in *Investing in Kids*

Attracting, Developing and Maintaining Human Capital: A New Model for Economic Development

Economic development authorities, workforce boards and early childhood systems play critical roles in helping states both recover from tough times and thrive in the future. With support from the Pew Center on the States, Timothy Bartik, senior economist at the W.E. Upjohn Institute for Employment Research and an expert on state and local labor market policies, has devised a new, evidence-based approach for effective economic development. Bartik's strategy is designed to support business growth and job creation by improving worker productivity and earnings both today and in the years and decades to come.

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In his new book, *Investing in Kids: Early Childhood Programs and Local Economic Development*,[1] Bartik argues for a comprehensive model that employs a combination of programs—well-designed business incentives and high-quality early childhood services open to all children—to build short- and long-term human capital. According to Bartik's research, by supplementing a research-driven package of business incentives with investments in early childhood programs, economic development agencies can meet business's immediate need for skilled workers, strengthen the workforce pipeline and generate strong returns to taxpayers.

This brief summarizes Bartik's findings on early education. For those readers seeking more information on his whole model, his book also contains a detailed analysis of the data on business incentives and related recommendations.

In the short run, property values may rise as much as $13 per dollar invested due to pre-k's effects.

Early Education is Economic Development.

Bartik's analysis confirms what decades of prior research has shown: Proven early childhood investments, including high-quality pre-k education for three- and four-year-old children, promote productivity growth and job creation in the near term and cultivate a better future workforce. In the short run, Bartik finds, early education and care

BUILDING NATIONAL HUMAN CAPITAL

Bartik's comprehensive model has another notable potential benefit: It engages communities and states—where most economic development strategies are formed—in the vital task of building a stronger national economy through better worker skills and productivity.

Traditional business incentives focus primarily on redistributing businesses among the states with little net national benefit. But, Bartik argues, combining well-designed business incentives and high-quality early childhood programs can help improve worker skills, which in turn expands the productive capacity and competitiveness of our national economy. Our global competitors understand this connection and are investing in human capital.

programs help secure skilled workers and raise their productivity and earnings by:

- **attracting** highly skilled workers with young children, who are more likely to settle where quality services are most available;
- **giving** employees peace of mind so they can be more productive on the job and less absent; and
- **boosting** demand for well-qualified teachers, who, in turn, tend to spend their earnings locally.

Over the longer term, effective early childhood programs enable children to become more creative, adaptable, team-ready employees. The majority of brain development happens between birth and age five, and early experiences have a profound impact on lifelong success. Quality early learning and care programs have been found to maximize this vital period of growth, supporting cognitive, social and emotional development. Children, especially those at risk of school failure, who attend high-quality pre-k programs have:

- **higher** test scores through their K-12 years;
- **improved** social and emotional skills, including better interactions with peers and teachers;

QUALITY PRE-K GENERATES SHORT- AND LONG-TERM RETURNS TO TAXPAYERS

In addition to promoting economic development, high-quality pre-k has an array of lifetime benefits for children and families—especially those from low-income or minority communities—that translate into significant savings to taxpayers and strong revenue gains, including:

- savings of up to $3,700 per child to school systems over the K-12 years;[2]
- reductions in special education placements of nearly 50 percent through second grade[3] and grade repetition of as much as 33 percent through eighth grade;[4] and
- crime-related cost savings of between $2.00 and $11.00 per dollar invested.[5]

These benefits from investments in young children accrue to the entire community, which in turn supports business by improving the operating environment and expanding the consumer base.

- **lower rates** of grade repetition and special education placements;
- **significantly greater** high school graduation and college attendance rates; and ultimately
- **increased** employment rates and higher earnings in adulthood.

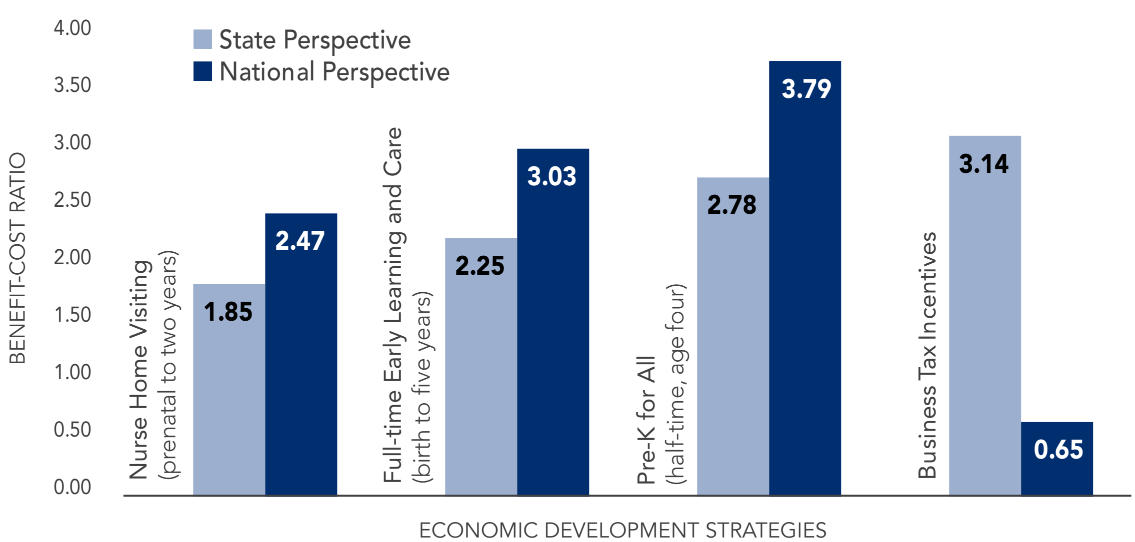
Bartik also notes that roughly 60 percent of all American workers—and 45 percent of those with a college degree—live and are employed in the state where they grew up. Using these data, he calculates that, as children grow to be local workers, states which provide quality early experiences can expect to reap both long- and short-run economic benefits:

- The increase in earnings per capita from a state perspective, per dollar invested in early childhood programs, ranges from $1.85 for a quality nurse home visiting program to $2.78 for pre-k for all children. As shown in Exhibit 1, returns on these programs are even higher nationally. By contrast, well-designed business incentives, as outlined in Bartik's book, have higher state but lower national returns.
- In the short run, property values may rise as much as $13 per dollar invested due to pre-k's effects in increasing school test scores, which are valued by parents making home-buying decisions.

Exhibit 1

Early Childhood Programs Have High Benefits Compared with Costs.

Ratio of Economic Development Benefits to Costs



SOURCE: Chapters 4 and 10, Bartik, *Investing in Kids*.

Ensuring that all children have access to quality pre-k, Bartik notes, provides the biggest economic development boost, but if that is not feasible, states can begin by targeting investments to the most at-risk children.

Importantly, to produce the strong results for children and families that in turn yield economic development benefits, early education programs must be of high quality. For pre-k, for example, this means well-prepared teachers; small classes and low child-adult ratios; developmentally appropriate curricula that foster cognitive, social and emotional skills; and meaningful parent engagement.

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Addressing the Top Three Business "Beefs"

Early childhood investments address three problems commonly cited by business owners:

Lack of talent—Early learning improves employee productivity today and cultivates the skills of tomorrow's workforce.

Reactive budgeting—Early education helps reduce taxpayer expenses for special education, crime and other costly problems.

Too few customers—Early learning leads to higher incomes and greater wellbeing for those least well off, creating a stronger consumer base.

Quality Early Education is a Key Part of Maximizing Human Capital.

Bartik argues that a comprehensive economic development strategy must include early learning programs, which complement the strengths of agencies' other initiatives, to:

- **cultivate** and retain high-paying businesses;
- **boost** the quality and productivity of the existing workforce;
- **attract** both sophisticated industries and the highly skilled workers they need; and
- **continue to produce** globally competitive workers into the future.

Recommendations

Development authorities should:

- **Collaborate** with policy makers to promote the targeting of public funds toward high-quality, evidence-based early childhood programs and
- **Consider** investing economic development funds directly in quality early childhood programs.

Conclusion

A community seeking to improve its economic situation knows that attracting, developing and maintaining a skilled, creative, productive workforce are among its top priorities. While human capital is key to recovery from an economic downturn, as the economy grows, human capital needs will be even greater. Having a supply of well-educated, highly skilled workers will position communities and states to compete nationally and globally. Well-designed incentives and proven early childhood programs provide a powerful one-two punch that builds human capital and produces a winning economy.

Endnotes

1 Timothy J. Bartik, *Investing in Kids: Early Childhood Programs and Local Economic Development* (Kalamazoo: W.E. Upjohn Institute for Employment Research, 2011).

2 Belfield, Clive R., and Heather Schwartz. "The Economic Consequences of Early Childhood Education on the School System." New Brunswick, NJ: National Institute for Early Education Research, 2006.

3 Center for Child Development. "LA 4 Longitudinal Report." Baton Rouge: Louisiana Department of Education, 2007.

4 Albert Wat, "The Case for Pre-K in Education Reform: A Summary of Program Evaluation Findings," (Washington: Pew Center on the States, 2010). http://www.preknow.org/documents/thecaseforprek_april2010.pdf.

5 Albert Wat, "Dollars and Sense: A Review of Economic Analyses of Pre-K," (Washington, DC: Pre-K Now, 2007). http://www.preknow.org/documents/DollarsandSense_May2007.pdf.

The Partnership for America's Economic Success, a project of the Pew Center on the States, amplifies the voice of business leaders in support of early childhood policies that strengthen our economy and workforce. The Partnership is managed by The Pew Charitable Trusts and is funded by the George Gund Foundation, Ohio Children's Foundation, Paul Tudor Jones, Robert Dugger, Society for Human Resource Management and The Pew Charitable Trusts.

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