

# The Economic Importance of Being Educated

**INSIDE:**

Early Childhood Education

Consumer Finance

Mortgage Counseling

**PLUS:**

Q&A with Laurence Meyer

# Forefront

New Ideas on Economic Policy from the FEDERAL RESERVE BANK  
of CLEVELAND



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## Stop Investing in Stadiums... Start Investing in Kids

*An interview with Art Rolnick, whose research on behalf of the Minnesota Early Learning Foundation aims to spur long-term economic growth*

Every metro area in the United States has one—an economic development agency. The agency typically spends its time and money putting together bids to woo manufacturing plants or Fortune 500 headquarters. Sometimes, it supports tax initiatives to build luxury sports stadiums. Representatives travel to other cities to get ideas on how to grow jobs and wealth—with waterfront developments, tourist attractions, and downtown condos.

Although sometimes these efforts create jobs, often they come at the expense of jobs lost somewhere else. Or the promised “spillover benefits” never arrive. But a growing number of experts are advocating for another kind of economic development that is uniquely effective—early childhood education. The main questions are how best to design the program and how to build greater public support.

Art Rolnick, an economist and former research director at the Federal Reserve Bank of Minneapolis, thinks he has the answer. Over the next few years, people across the nation will be able to see the results for themselves.

Mark Sniderman, executive vice president and chief policy officer with the Federal Reserve Bank of Cleveland, interviewed Rolnick via videoconference on June 30. An edited transcript follows.

*Sniderman: We’re here this morning to discuss early education. How did you first become interested in this topic?*

Rolnick: My involvement was serendipity. A group of us used to meet about once a month for lunch here in downtown Minneapolis—some lawyers, businesspeople, academics, and media people. About nine years ago, we invited the executive director of an organization called Ready for K [kindergarten], which was established



## Arthur J. Rolnick

### Position:

Senior fellow at the Humphrey Institute in Minnesota

### Past Position:

Senior vice president and director of research at the Federal Reserve Bank of Minneapolis

### Essays:

Include the nationally recognized “The Economics of Early Childhood Development”

### Education:

Wayne State University, BS, mathematics;  
University of Minnesota, PhD, economics

### Bio:

Rolnick joined the Federal Reserve Bank in 1970. He served as senior vice president and director of research from 1985 until his retirement this summer. In 2003, Rolnick and colleague Rob Grunewald wrote a policy proposal that advocates providing high-quality early childhood education to at-risk children. That effort has grown into a pilot program supported by the Minnesota Early Learning Foundation.

by a former governor of the state, Al Quie, and a former mayor of Minneapolis, Don Fraser. The organization was advocating for early childhood education and development.

I listened to the talk. They presented what I thought was a fairly weak argument. It was basically a moral argument, and it's not that I disagreed with it. But it was weak from an economic point of view. I felt that if they were going to really push this issue forward, they should look at the economics of investing in early childhood education. Policymakers need a way to rank a plethora of reasonable-sounding initiatives. They need a way to figure out how much to invest in each. And that's where economics comes in.

I made that comment, and that was my mistake! Because the board of Ready for K, in particular the former governor and mayor, started calling and asking if I would come on the board and write the background paper.

So I agreed to look into the economics of early childhood education. I went to work with my colleague Rob Grunewald, who was our education outreach person at the Federal Reserve Bank of Minneapolis. After three months we sent our report to Ready for K. I thought I was done and could resume my research on pre-Civil War banking.

I was wrong. Since that report, over the last nine years, almost every week, Rob and I have received at least one call or written invitation to speak somewhere on this issue. We have been to almost every state.

**Sniderman:** *What are the critical differences in the way the issues are framed and how you evaluate some of the choices that need to be made from the economist's perspective?*

**Rolnick:** We argued that early childhood development *is* economic development, and the research shows it's economic development with a high public return—very high.

We looked at four well-known longitudinal studies. I'm going to talk about one in particular, the Perry preschool study. That was back in the early 1960s in Ypsilanti, Michigan. In this study, 123 at-risk kids and their parents were enrolled and randomly divided into two groups. One group got a very high-quality early education program, including master's-level teachers, small classroom size, and home visiting. So there was a program group and a control group. Reports were produced every 10 years and we now have a 40-year report, comparing the children who eventually became adults who were in the program, to the control group.

Rob and I asked a very simple question: What was the return on that investment? It hadn't been asked quite that way before.

That's what economists would normally ask about any proposed public investment. We know the cost of the two-year program; in today's dollars it was \$22,000 per child. Now we need to know the benefits. Well, children that were in the program were less likely to be retained in the first grade, and that's a significant saving. They were less likely to need special ed.

That's a significant saving. They were more likely to be literate by the sixth grade, graduate high school, get a job, pay taxes, stay off welfare. And the largest benefit of all, for the children who were in the program, the crime rate went down 50 percent relative to the control group.

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**We found that in the Perry preschool study, the annual rate of return, inflation-adjusted, was 16 percent. I don't think you could find a better public investment.**

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Economists can put dollar values on all these benefits and back out the return on investment based on the benefits and the costs. We thought it would be high. We compared it to the stock market. The annual yield in the stock market, post-World War II, is about 5.8 percent, so we thought we would be doing well if we could beat 5.8 percent. We found that in the Perry preschool study, the annual rate of return, inflation-adjusted, was 16 percent. I don't think you could find a better public investment. (In a more recent study, James Heckman finds a somewhat lower, but still high, 10 percent return.)

**Sniderman:** *What have you learned about what it takes for a program to be successful? Does it extend beyond the classroom?*

**Rolnick:** Let me clarify. When we're talking about early childhood development and education, we're talking prenatal to five years old. Learning begins right away. The neuroscientists show

## Minnesota Early Learning Foundation



Established in 2005, the Minnesota Early Learning Foundation is a nonprofit organization dedicated to developing cost-effective strategies to prepare children for success in kindergarten. Over the last three years, MELF has raised more than \$19 million privately to fund an early childhood education program called Scholarship Plus. In the foundation's pilot program,

[www.melf.us](http://www.melf.us)

low-income parents in a St. Paul community are eligible for no-strings-attached scholarships worth \$13,000 to enroll three- and four-year olds in highly rated preschools. This summer, 625 parents were signed up. Now, the foundation is working to expand the program across the state. Participants also are assigned a "mentor" to work with them on an array of parental issues, including nutrition and health.

that if the child is in a stressful environment during these early years, the brain doesn't develop properly. There was a famous study by Dr. Bruce Perry on the orphans in Romania. They were put in cribs and virtually ignored, except for feeding time. At age three, their brains were about a third smaller than what they should have been.

**I think we have the research on our side. I think we have the economic case on our side.... Unfortunately, we still have a long way to go politically to make all this happen.**

One of my mentors, Dr. Jack Shonkoff at Harvard, makes a strong case that the debate between nature and nurture is over. We know that environment matters a lot for normal brain development, starting at prenatal. In other words, there is a critical mental and physical health component to early childhood education.

We have a lot of research that says if a child is in a healthy and loving environment, in which there's bonding between the parents and the child, where there's positive interaction, so the child starts out cognitively and socially ready for school, there's a high probability that the child will succeed in life. If not, there's a high probability she will not.

Here is my frustration. We have a lot of information that there is an extraordinary public return to early childhood education and a small return to investing in professional sports teams. Indeed, we spend billions of public dollars around this country building sports stadiums and arenas. There is virtually no return on

these investments, because they would have been built without public subsidies. I think we have the research on our side. I think we have the economic case on our side. I think we have the healthcare case on our side. Unfortunately, we still have a long way to go politically to make all this happen.

*Sniderman: You have stirred up some controversy in terms of the program design that you had in mind. I wonder if you could describe the more unusual approach that you've been advocating.*

*Rolnick: You're right; some have questioned our second essay.*

When we looked at the research, a number of challenges were suggested:

- One is that if we're going to come up with a public policy, it would have to be one that we could scale up so we apply it to all at-risk kids.
- Another challenge is we didn't think we could get sustainable results if we didn't engage and empower the parents.
- A third challenge is that you've got to be able to measure results. You can't just tell the public, "Trust us." You have to be able to show that these kids are actually benefiting.
- Finally, there was the challenge from the neuroscientists who said you can't just start at three—you've got to start at prenatal or birth.

Based on those challenges, Rob and I came up with a policy proposal that focused on the demand side of this market. As economists, we've been taught that markets are powerful forces. If you've got customers with economic power, the market will make

things happen. We proposed a simple idea—scholarships. We advocated for providing two-year scholarships to families living in poverty so they could send their children to high-quality early childhood programs for three- and four-year olds. That's where we began our proposal.

Then critics said that's fine, but it doesn't start early enough. Well, we actually call our program "Scholarship Plus," and the plus is a mentor, a home-visiting mentor that begins prenatal. We advocate that this home-visiting mentor, the first one coming to the door, is a home-visiting nurse because of the health aspects. That mentor stays with the family, or triages if necessary, so the family has an ongoing mentor who works with them on nutrition, prenatal care, and parenting skills. Studies show that when you have home-visiting mentors working with teenage moms especially, you can reduce infant mortality and the number of low-birth-weight babies. So you get at that health component, you get at that initial bonding component, you make sure there is positive interaction between the baby and the mom. That's the beginning of our program. Then when the child turns three, the child receives a two-year scholarship.

The conventional approach is more top-down. It focuses on programs, not on parents. However, I don't care how many good programs you have out there. If you haven't engaged the parents in the program, you've failed. Start with the parents, focus on the parents, and empower the parents with resources; the market will provide the quality programs.

We actually have a pilot project that is testing these ideas, and what we're showing is that, sure enough, the market responds. We have a four-star rating system; you have to be a three- or four-star-rated program to get our scholarship kids; our scholarships pay up to \$13,000 a year. Our critics said there wouldn't be enough capacity; they were wrong. Capacity of high-quality programs has grown with demand, as predicted. (See the Minnesota Early Learning Foundation website for a description and evaluation of this project.)

Some private early ed programs have moved into the neighborhood, very good programs. Head Start and Montessori have expanded their programs; in the St. Paul schools, early ed capacity is growing. The market is responding. Our parents are not having a problem finding programs. There were some issues when we were first handing out the scholarships, but once the word got out, capacity started to increase. We're getting the kind of results that we hoped for, and we're getting engaged parents involved in the process.

**Sniderman:** *Can you describe some of the challenges early ed is facing in gaining more acceptance and funding?*

**Rolnick:** We think from an education perspective, the case for early ed is strong. But if you were just looking at early childhood development from a health perspective, you would wonder why more public resources are not being invested in our most at-risk children. The research is overwhelming. So why are resources not increasing, especially in a state like Minnesota? We're an education state, very progressive state, very wealthy state. The problem politically is that these kids don't vote, at least not in our state! Their parents generally don't vote. These problems are long-term, they're opaque; you don't really see them until many years down the road. If I build a stadium, you see that tomorrow. It looks like you're creating jobs even though you're really not; you're just moving them around. So it is an interesting political issue.

More generally, there is a disconnect between our public priorities and the research. There is the research that shows there's a high public return to making sure our at-risk kids start healthy and ready to learn at kindergarten, versus the research that shows that investing public money in entertainment and other private businesses has a very low public return. And it's not just sports teams that pit one city or state against another. But in the name of creating jobs, we use public subsidies to try to lure one company from one state or one city to another. This kind of economic development, which seems to dominate conventional practice, is winning the day. That's where most of our economic development dollars go across the country—and it's billions of dollars—while early ed struggles just to maintain its funding.

**Sniderman:** *As you mentioned, Art, some of the programming is very challenging to find funding for. What sense do you have about federal-level support and interest in early care and education for kids in the areas that we've been talking about?*

**Rolnick:** On both sides of the political aisle, there's an understanding of the latest research on early childhood education and the potential return to society. I say both sides of the aisle because during the campaign, both candidates cited James Heckman's work out of the University of Chicago, who has done path-breaking research on the importance of investing early in children's education, and cited the Minneapolis Fed's research as well. The Obama Administration has made a strong commitment to early childhood education. They're supporting something called a "challenge grant" that's working its way through Congress. In addition, there is money in the health-care bill for home-visiting nurses.

So I think there is a lot of encouraging movement in Washington. I do think, though, it's up to the cities and states, the local communities, to be more aggressive in this area. I think there could be federal dollars if they are.

I think it's going to take a partnership, the private sector with the local communities and the federal government. But I think it's important for communities to get their priorities in order to make it clear that this is an area we can't afford not to invest in.

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**Sniderman:** *I think it will be fascinating to come back five years down the road. There will be a lot more children who've had the opportunity to participate in the programs in Minnesota and some of the other places that you've mentioned. We'll certainly be in a position to know quite a lot more than we do today about how effective these programs are and what some of the critical elements are that go into making up high-quality programs. I know you're excited about what the future is going to bring as well.*

**Rolnick:** I hope five years from now we'll be out of business! We'll have convinced the public that this is what you should do, the scholarships and mentors will be there for all poverty kids, and then I can go back and finish some of my pre-Civil War banking papers.

**Sniderman:** *Thanks a lot for your time this morning; I really appreciate it.*

**Rolnick:** Thank you, Mark. ■



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