



Art Rolnick, senior fellow of the U of M's Humphrey School of Public Affairs

Investment in Pre-K education is vital to long-term economic competitiveness

A Civic Caucus Focus on Competitiveness Interview

May 30, 2014

Present

John Adams, Dave Broden (vice chair), Janis Clay, Jack Davies, Pat Davies, Paul Gilje (coordinator), Judi Johnson, Randy Johnson, Sallie Kemper, Walt McClure, Paul Ostrow, Art Rolnick, Dana Schroeder, Clarence Shallbetter, Fred Zimmerman. By phone: Audrey Clay, Dan Loritz (chair).

Summary

Art Rolnick of the University of Minnesota's Humphrey School of Public Affairs reports that early childhood education provides an 18 percent inflation-adjusted return on investment when it's provided to the most at-risk, vulnerable kids. He argues that early childhood education, including prenatal to age three, is the best investment Minnesota can make to promote long-term economic development. Following a successful, privately-funded pilot program offering preschool scholarships to at-risk kids, the 2013 Legislature appropriated \$40 million over two years to fund such scholarships across the state.

Rolnick contends that giving public subsidies to attract private businesses is the wrong way to do economic development. Instead, the right way to promote long-term competitiveness, he says, is by investing in human capital, focusing especially on at-risk prekindergarten children. He questions the priority state and local governments give instead to such projects as public funding for the Mall of America, building and operating light-rail transit, and funding the proposed streetcars in Minneapolis.

Biography

Arthur Rolnick is senior fellow and co-director of the Human Capital Research Collaborative at the University of Minnesota's Humphrey School of Public Affairs. He works to advance multidisciplinary research on child development and social policy.

Rolnick previously served for 40 years at the Federal Reserve Bank of Minneapolis, most recently as senior vice president and director of research and as associate economist with the Federal Open Market Committee, the monetary policymaking body for the Federal Reserve System (the Fed). During his tenure at the Fed, he studied the competitiveness of regional, state and local economies of District Nine, which includes Minnesota, Montana, North and South Dakota and parts of Wisconsin.

His work on early childhood development, both during his time at the Fed and afterwards, has garnered numerous awards, including those from the George Lucas Educational Foundation and the Minnesota Department of Health, both in 2007. He was also named 2005 Minnesotan of the Year by *Minnesota Monthly* magazine.

Rolnick has been visiting professor of economics at Boston College, the University of Chicago and the University of Minnesota. Most recently, he was adjunct professor of economics in the Master of Business Administration program at Lingnan College in Guangzhou, China, and the University of Minnesota's Carlson School of Management.

A native of Michigan, Rolnick has a bachelor's degree in mathematics and a master's degree in economics from Wayne State University in Detroit and a doctorate in economics from the University of Minnesota.

Discussion

Ten years ago, former U.S. Representative and Minnesota Governor Al Quie and former U.S. Representative and Minneapolis Mayor Don Fraser founded the organization Ready for K to promote early childhood education. According to Art Rolnick of the University of Minnesota's Humphrey School of Public Affairs, he spoke at that time with a group from Ready for K (i.e., kindergarten). He told them he didn't think they would get any political traction out of the moral argument that early education was the right thing to do. Instead, he told them they should make an economic argument. The group then asked Rolnick to join the board and to make the economic case.

Rolnick and his Minneapolis Federal Reserve (Fed) colleague Rob Grunewald analyzed a number of longitudinal studies and found that early education provides an 18 percent inflation-adjusted return, most of it a public benefit, when it's provided to the most at-risk, vulnerable kids. These are the kids, Rolnick said, who are falling behind, who are born into poverty and/or whose parents are in prison. In almost all cases, he said, these vulnerable kids do not succeed, do not finish high school and end up getting in trouble. "They cost society enormous resources," he said.

The Minnesota Early Learning Foundation (MELF), mostly a business group founded by then-Cargill, Inc., CEO Warren Staley, raised \$20 million for two programs: Parent Aware and a pilot program of scholarships for early education programs. Parent Aware rates early education programs in Minnesota on a one-to-four-star basis. The pilot program provided scholarships to send at-risk kids, starting at age three, to high-quality, four-star-rated early education programs. The program provided 650 scholarships, up to \$13,000 per year, to kids in the Frogtown area of St. Paul whose family incomes were at or below 185 percent of the poverty level.

Rolnick said the program empowered parents by providing prenatal home nurse visits, mentors and scholarships at age three. The parents could choose any four-star-rated early childhood program, whether Head Start, private or faith-based programs. He said the parents were very positive about the program, but were concerned whether the kindergarten-through-grade-three programs for their children would be four-star-rated.

The MELF pilot gained recognition at the state, national and international levels. As a result of that pilot and business community support, which Rolnick said was unique in the country, the State of Minnesota received a \$45-million federal Race to the Top grant to replicate the Frogtown-area pilot in other areas of state: the White Earth Reservation, North Minneapolis, St. Paul and a rural area in Itasca County.

Rolnick pointed out that there is very little early childhood education infrastructure on the White Earth Reservation, so providers with a one-star quality rating are eligible to accept the scholarships. However, those providers must be progressing toward a four-star rating.

In 2013, the Legislature appropriated \$40 million for the scholarships over a two-year period. The 2014 Legislature appropriated an additional \$4.6 million, with a commitment to increase funding in the future. This state money is to be used for early education scholarships across the state. Rolnick said Gov. Mark Dayton's goal is, by 2018, to ensure that every at-risk child in the state has access to high-quality early childhood education.

In terms of long-term economic development, early childhood education is the best investment we can possibly make. "That was 10 years ago and no one has challenged it," Rolnick said. "If you provide the tools to these parents, get these kids engaged and make sure the kids are born healthy and have access to this kind of environment, you can go a long way in making sure the kids succeed."

Early childhood education is clearly catching on as a critical area that's underinvested.

Minnesota is making a lot of progress in this area. Rolnick serves on the early childhood cabinets of the governor and of Minneapolis Mayor Betsy Hodges, who is focusing on prenatal to age five. He is also advising New York City Mayor Bill de Blasio, who has a major emphasis on early childhood education, and serves on Oregon Governor John Kitzhaber's early childhood cabinet.

Neuroscience research shows that 90 percent of brain development takes place before age five. "K through 12 doesn't have a chance if this brain development hasn't taken place before kids enter kindergarten," Rolnick said. "You might find some super people out there who can turn some of these kids around, but the real issue starts much earlier than K-12."

Rolnick said an outside evaluation of the first kids who participated in the pilot early education scholarship program showed as first-graders, they were very close to majority kids in both cognitive and social skills. He said the program's ultimate goal is to start every family prenatal and that the prenatal-to-age-three period probably offers the highest return of all.

He noted that the Northside Achievement Zone, a program targeted at families in North Minneapolis, is recording family by family the words parents are actually saying to their kids every day. "We're using the best practices of research," Rolnick said.

Early childhood development involves both education and health. "The health component is critical here," Rolnick said. MELF uses home-visit nurses before birth to reduce infant mortality and low-birth-weight babies. The Center for Disease Control has done studies that show a high correlation between kids' health metrics in the early years and health 40 years later. He said the 18 percent return-on-investment for early childhood education that he and Grunewald estimated is actually a conservative projection, because it didn't include health-care data.

"It's overwhelming. Hands down, we need to do a better job of investing in our kids," Rolnick said.

The U.S. Constitution says cities and states aren't supposed to interfere in interstate commerce. In 1991, Al Checchi, former co-chairman of Northwest Airlines, offered to locate an airplane maintenance facility in northern Minnesota in exchange for a state loan of \$320 million. At the time, Rolnick asked why the state should make such a large, risky investment in Northwest. But then-Gov. Arne Carlson was worried about Northwest moving their headquarters someplace else if the state didn't agree to the loan. Rolnick perceived the state loan to Northwest as interference in interstate commerce. His colleague Mel Burstein, the Fed's general counsel, agreed.

State and local governments spend at least an estimated \$90 billion per year to lure businesses across the country. A *New York Times* study reported in December 2012 looked state-by-state and county-by-county at the money spent by state and local governments on incentives to businesses and came up with what Rolnick called this conservative estimate.

When we allow cities and states to pick winners and losers in competing for business, it's a zero-sum game. "You're not creating jobs, you're just moving jobs from one city to another or from one state to another," Rolnick said. "It's time to end the economic bidding war among the states." He explained that competition among private businesses is good, but the only good competition among cities and states is over which state or city can produce the best public goods at the lowest cost.

Rolnick and Burstein proposed that if any private business gets a subsidy or any preferential treatment that others don't get, it would have to declare that gift as income. Then the federal government would impose a 100 percent confiscatory tax. "The game's over," he said. "It would have ended it overnight."

In 1999, then-Congressman David Minge (D-Minn.) introduced a bill doing just that, according to Rolnick, but the sports lobbyists killed it. "If you're a professional sports team, you're getting billions of dollars from the government," he said. "This is corporate welfare in the extreme."

Giving subsidies to private businesses is the wrong way to do economic development. "It's just moving jobs around in this war," Rolnick said. "Who's really winning the war? The owners of these companies. The Mall of America got \$250 million in public money. Is there a shortage of retail space? What problem are we fixing here?"

Rolnick said early education should be the top priority, but it's at the bottom. "We don't have the political clout," he said. "The kids are invisible. The parents don't vote."

If Congress doesn't act to limit or end the competition among states and cities in offering subsidies to businesses, it puts local politicians in a rough spot. Rolnick said our public policy

allows companies to "blackmail" local governments and that he wouldn't have given the Minnesota Vikings any public money to build their new stadium. "We need someone to say, 'It's time to think of a national perspective,'" he said. The European Union does not allow governments to lure jobs from one country to another.

The right way to promote long-term competitiveness is through human capital. The Minneapolis Fed did a study comparing Minnesota's economy to the rest of the country from 1920 to 2000. Per capita income was one measure used in the study. In 1920, Minnesota's per capita income was a little below the national average, which continued into the 1950s. But in the late 1950s, the state started outperforming the rest of the country, Rolnick said, and by 2000, Minnesota had one of the top economies in the country and the world.

The factor that changed in the late 1950s to propel Minnesota's economy was that the state started to pour money into education. Rolnick said the state then began to outperform the nation in education metrics like the number of high school graduates and people going on to college and technical schools and getting advanced degrees. The state's workforce rating moved to sixth or seventh best in the country. "We did so well because the state invested in human capital," Rolnick said. "Our workforce and work ethic make Minnesota a great place to do business."

Early childhood education is economic development with a high public return . Rolnick said early education should be the first priority in education spending. He stressed he's not going after K-12 dollars, but after economic development dollars. "That's the best thing we can do right now if you're looking to create jobs." He noted that to be competitive, we also have to take care of our infrastructure. And while we should keep taxes as low as possible, that must be balanced with the return from what the state and local governments invest those taxes in.

For the early childhood development program to succeed, the home visiting nurses and educators must be high quality. Rolnick stressed that "We worry a lot about quality: the quality of the school and the quality of the mentors," he said. MELF evaluates the mentors (nurses and educators), including surveying the parents.

Rolnick said the program tracks all the kids and parents involved. He said even if a preschool is four-star rated, the top quality rating, MELF expects all the kids in the program to pass an assessment for kindergarten readiness. Currently, he said, fully 50 percent of all Minnesota kids are not ready for kindergarten. Schools are judged by their outcomes, he said, and will be cut out of the scholarship program if they don't produce the expected results.

The state should consider extending the four-star preschool rating system to kindergarten through third grade. Rolnick said if the rating were funded with private money, the K-12 system couldn't object. "This will ensure that K-12 doesn't drop the ball," he said. "If we're successful in getting these parents engaged and a lot of the kids ready, most schools will do very well," he added. "We have very dedicated teachers. There are some dysfunctional ones, though. On average, we'll do fine. Nevertheless, we're going to push for the K-3 rating system."

We want the education system to create students who meet the needs of the market, but markets change overnight. In response to a question about higher education, Rolnick said we need to teach students how to learn, so they can get a foot in the door and learn on the job. "It's a changing

world out there," he said. "I like liberal arts education, which can teach kids a passion for learning and how to learn how to learn. There's a lot of great mentoring that goes on within a business."

A prenatal-to-age-three education and health system will require a government program.

Rolnick cited the City of Minneapolis Public Health Department's home-visiting nursing services to all teenage mothers. He said the program is going to expand to all mothers in poverty. He hopes to encourage United Way to work on starting this program in cities around the country.

The way to get the state involved in funding a program is to successfully run small projects, which are then hard for the state to ignore or marginalize. "This is what we did with MELF," Rolnick said. "It doesn't just happen at the state level without evidence."

Minneapolis should put the money it is proposing to spend on streetcars into early childhood.

"What problem are streetcars solving?" Rolnick asked. "What problem did public funding of the Mall of America solve?"

There's very little research showing much return on investment in all-day kindergarten. Rolnick said Minnesota was already providing all-day kindergarten for kids in poverty when the 2013 Legislature funded universal all-day kindergarten. "That was for middle-class kids who would no longer have to pay for it," he said. The Legislature provided \$100 million for all-day kindergarten and \$40 million for early childhood education.

If economists had done serious cost-benefit analyses and if cities and the state were paying the full cost, light-rail transit (LRT) would never have happened. "What are we fixing with LRT?" Rolnick asked. "Is it congestion? Is it to help low-income families?" Pointing out the high public subsidy per ride on LRT, he said it's not clear that the benefits to the few who ride LRT come anywhere close to the costs.

Minnesota is a leader on early childhood issues. Rolnick said Washington, including the White House, is very interested in what the state is doing and the fact that the business community here is so supportive and progressive on this issue. "Minnesota is at the front on early childhood and on human capital," he said.

He said the state clearly has some problems, such as the largest achievement gap in the country. But we have one of the most productive economies, one of the lowest unemployment rates, and a unique tradition of strong public leadership. "This is an incredible place," he said. "I'm very optimistic about Minnesota's economy. But we can't lose our focus. We can't let our investment in our kids decline."