

*Partnership for America's Economic Success*

**Proposed State and Federal Resource Allocation Principles**

June 1, 2010 Working Paper

*Boiling priorities down to their basic, underlying values can help clarify difficult problems and inform decision-making. Expressed as principles, these values can help leaders build public support for the choices our country needs to make.*

*The principles should make practical sense to families, businesses and government leaders and be applicable in pragmatic ways across a variety of tax, spending and regulatory policies. With these criteria in mind, the Partnership for America's Economic Success offers the following public-investment principles:*

**Human Capital** – To achieve economic growth and fiscal sustainability, government should emphasize strengthening the skills and capacities of America's workforce.

**Young Children** – In developing human capital, our nation should focus especially on children, from before birth to five years of age, and their families.

**Evaluation** – Return on investment should be a key consideration in public resource allocation decisions.

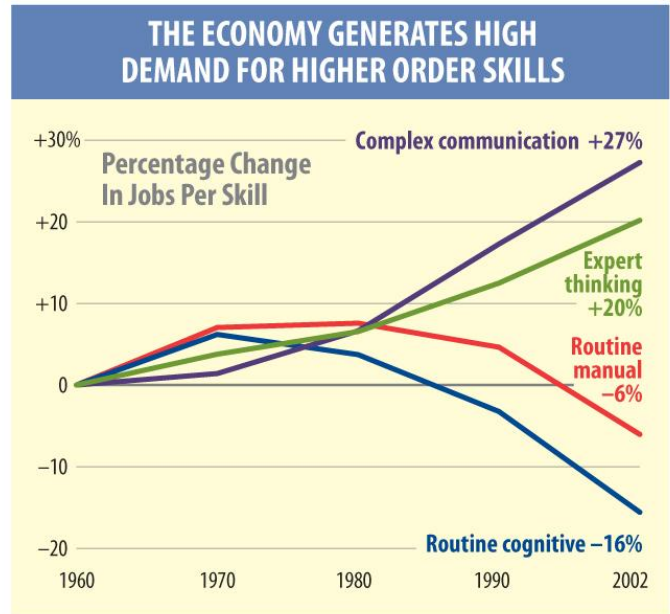
**Transparency** – Government should enable citizens to understand and participate in the assessment of revenue and spending decisions.

**Sustainability** – State and federal budgets should be viable over the long term.

*The Partnership for America's Economic Success is a collaborative initiative of business, economists, funders, policy leaders and advocates. It mobilizes business leaders to improve tomorrow's economy through smart policy investments in young children today. It is managed by the Pew Center on the States and funded by Robert Dugger, the George Gund Foundation, Ohio Children's Foundation, John D. and Catherine T. MacArthur Foundation, The Pew Charitable Trusts and Scholastic, Inc. More information is at [www.PartnershipforSuccess.org](http://www.PartnershipforSuccess.org).*

**1. Human Capital - To achieve economic growth and fiscal sustainability, government should emphasize strengthening the skills and capacities of America's workforce.**

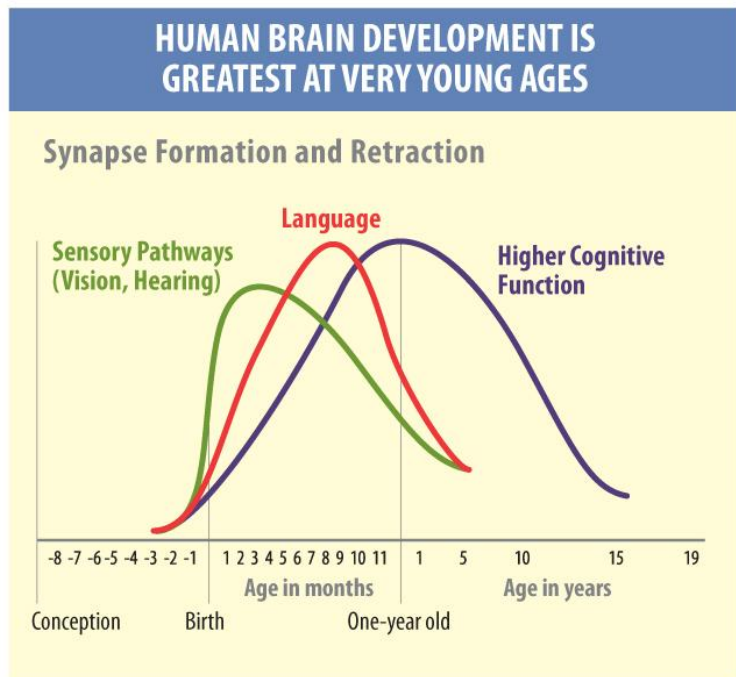
- a. The expanding use of technology and the development of an increasingly complex global economic system require the U.S. workforce to acquire new and more advanced skills in order for our nation to compete successfully.<sup>1</sup>
- b. Adaptable, creative, highly-skilled workers are critical to the successful implementation of all our nation's major policy priorities, whether in defense, the environment, health, social services or economics.<sup>2</sup>



SOURCE: David Autor, Frank Levy and Richard J. Murnane, "The Skill Content of Recent Technical Change: An Empirical Investigation," *Quarterly Journal of Economics*, 118, 4 (November 2003) pp. 1279-1334. (2003) data updated to 2002 by David Autor.

**2. Young Children - In developing human capital, our nation should focus especially on children, from before birth to five years of age, and their families.**

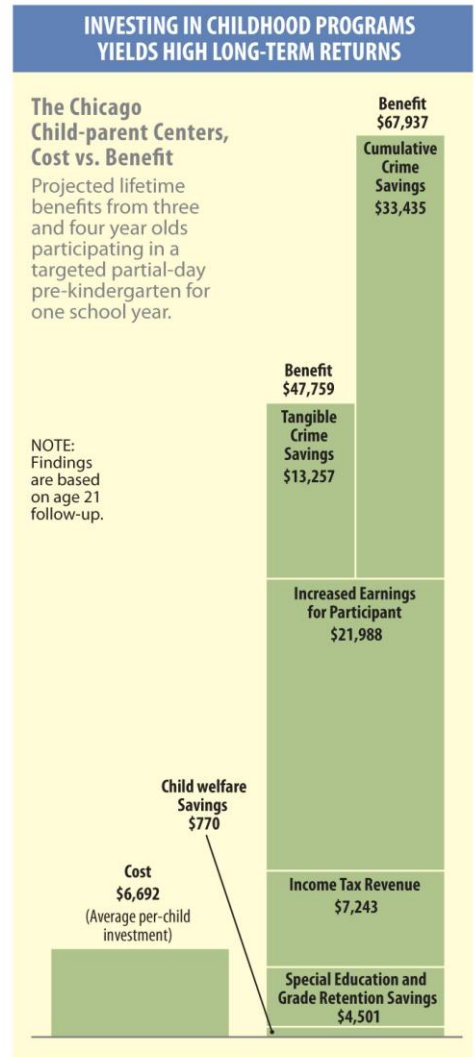
- a. The foundation of many of the skills needed for 21st-century jobs — strong social, emotional, physical, language and cognitive abilities, including capacities for impulse control, creative thinking, teamwork and self-directed activity — are first cultivated early in a child's life.<sup>3</sup>
- b. Barriers to educational achievement begin early. Gaps in vocabulary begin to appear before preschool and get larger in the absence of intervention.<sup>4</sup>



SOURCE: C. A. Nelson in *From Neurons to Neighborhoods*, 2000

**3. Evaluation - Return on investment should be a key consideration in public resource allocation decisions.**

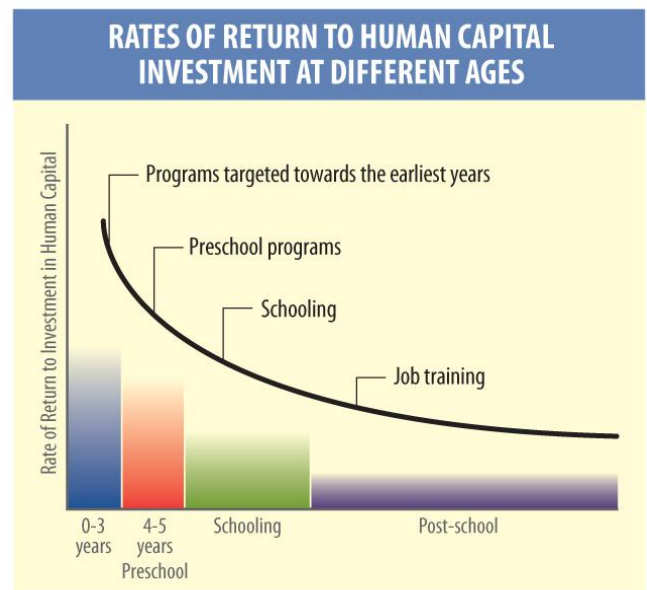
- a. Collecting and using the data needed to assess performance and measure outcomes can improve near- and long-term results for all programs and support smart policy choices.<sup>5</sup>
- b. Evidence-based programs that support strong families and foster the healthy development of their young children, starting before birth, have demonstrated significant returns on investment.<sup>6</sup>
  - ✓ Near-term cost savings to health and education systems
  - ✓ Job creation where the spending occurs<sup>7</sup>
  - ✓ Economic growth by enhancing worker skills and lifetime earnings
  - ✓ Reduced need for costly interventions such as incarceration<sup>8</sup>



SOURCE: Council on Competitiveness, *Competitiveness Index*

**4. Transparency - Government should enable citizens to understand and participate in the assessment of revenue and spending decisions.**

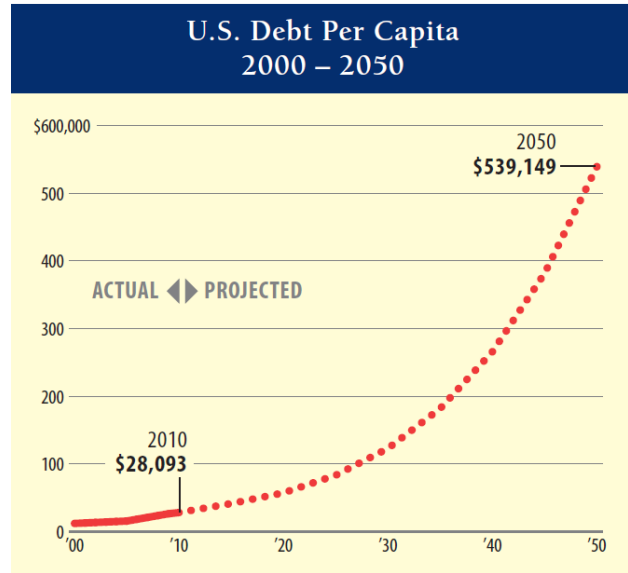
- a. Articulating a clear rationale for investment and encouraging public participation in decision-making facilitates public support for wise policy choices.<sup>9</sup>
- b. Openness regarding all aspects of public investment, including how resources are raised and spent and how activities are regulated, helps inform the public about policy choices.



SOURCE: Dr. James Heckman, University of Chicago

5. **Sustainability** - State and federal budgets should be viable over the long term.

- a. Budgets that reliably balance over time generate confidence in government, promote a healthy financial system and support increased private-sector investment.<sup>10</sup>
- b. Smart early learning policies reduce remedial costs and increase economic growth, contributing to long-term fiscal health and improving opportunity for future generations.



SOURCE: Social Security Administration, Center for Budget & Policy Priorities

Graph Data Sources: Population data are from Social Security Administration, Table 21c, Intermediate Alternative, <http://www.ssa.gov/OACT/NOTES/AS112/tab21c.html> . Debt data are from Center for Budget & Policy Priorities, "The Right Target: Stabilize the Federal Debt" January, 12, 2010, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3049>

## End notes

---

<sup>1</sup> For further discussions of the role of human capital in economic growth, see for example:

TW Schultz (1961), "Investment in Human Capital", *American Economic Review*  
<http://www.jstor.org/stable/1818907>

J Mincer (1981), "Human Capital and Economic Growth", *NBER Working Paper No. 803*  
<http://www.nber.org/papers/w0803>

NG Mankiw, D Romer, and D Weil (1992), "A Contribution to the Empirics of Economic Growth", *The Quarterly Journal of Economics*  
[http://www.uac.pt/~amenezes/macroeconomiaII/macroeconomiaII\\_20062007/papers/mrw1992.pdf](http://www.uac.pt/~amenezes/macroeconomiaII/macroeconomiaII_20062007/papers/mrw1992.pdf)


R Lucas (2002) *Lectures on Economic Growth*, Harvard University Press  
<http://www.hup.harvard.edu/catalog/LUCLEC.html>

E Glaeser and A Saiz (2003), "The Rise of the Skilled City", Harvard Institute of Economic Research Discussion Paper No. 2025. December 2003.  
<http://www.economics.harvard.edu/pub/hier/2003/HIER2025.pdf>

DeLong, J., Bradford, C. G., and Katz, L. H. (2003). [Sustaining American economic growth: Education as the highest priority](#). In Henry Aaron (Ed.), *Agenda for the Nation 2003*. Brookings Institution: Washington, DC.

J Heckman and D Masterov (2004) "The Productivity Argument for Investing in Young Children" Invest in Kids Working Group, Committee for Economic Development, Working Paper No. 5  
[http://www.partnershipforsuccess.org/docs/ivk/report\\_ivk\\_heckman\\_2004.pdf](http://www.partnershipforsuccess.org/docs/ivk/report_ivk_heckman_2004.pdf)

P Bauer, M Schweitzer and S Shane (2006), "State Growth Empirics," Federal Reserve bank of Cleveland Working Paper 06-06.  
<http://www.clevelandfed.org/research/Workpaper/2006/wp0606.pdf>

Burr and Grunewald (2006) "Lessons Learned: A Review of Early Childhood Development Studies." Federal Reserve Bank of Minneapolis,  
[http://minneapolisfed.org/publications\\_papers/studies/earlychild/lessonslearned.pdf](http://minneapolisfed.org/publications_papers/studies/earlychild/lessonslearned.pdf) 

Cunha and Heckman (2006), "Investing in our Young People." University of Chicago manuscript  
<http://jenni.uchicago.edu/human-inequality/> 

Dickens, W. T., Sawhill, I. V. and Tebbs, J. (2006). [The effects of investing in early education on economic growth](#). The Brookings Institution: Washington, DC.

Jeffrey Lacker (2007) "Early Childhood Development and Economic Growth", Remarks to the Governor's Summit on Early Childhood Development  
[http://www.richmondfed.org/press\\_room/speeches/president\\_jeff\\_lacker/2007/lacker\\_speech\\_20070727.cfm](http://www.richmondfed.org/press_room/speeches/president_jeff_lacker/2007/lacker_speech_20070727.cfm)

Mildred Warner, editor (2007) "Child Care and Economic Development: Markets, Households and Public Policy", *International Journal of Economic Development*. Cornell University  
<http://government.cce.cornell.edu/doc/reports/childcare/ijed.asp>

B van Leeuwen and P Földvári (2008), "Human Capital and Economic Growth in Asia 1890-2000: A Time-series Analysis", *Asian Economic Journal*

---

[http://econpapers.repec.org/article/blaasiaec/v\\_3a22\\_3ay\\_3a2008\\_3ai\\_3a3\\_3ap\\_3a225-240.htm](http://econpapers.repec.org/article/blaasiaec/v_3a22_3ay_3a2008_3ai_3a3_3ap_3a225-240.htm)

Dickens, William (2008). *Dynamic Estimates of the Fiscal Effects of Investing in Early Childhood Programs* Research and Policy Committee of the Committee for Economic Development. (2003). [How economies grow: The CED perspective on raising the long-term standard of living.](#)

A Savvides and T Stengos (2009) *Human Capital and Economic Growth*, Stanford University Press  
<http://www.sup.org/book.cgi?id=10377>

McKinsey Global Institute, *Changing the fortunes of America's workforce: A human capital challenge* –

Most of the economy has already shifted from manufacturing to services and that shift continues. The growing complexity of economic activity seen in, for example, global supply chains, just-in-time production, and increasingly precise customer segmentation and channel strategies, has led to higher demand for advanced skills. This is reflected not only in a changing mix of occupation and compensation levels, but also in a greater variation in skill levels and income within particular occupations. Such developments, essential drivers of productivity growth, mean that human capital productivity is now the key to the nation's overall economic growth. McKinsey Global Institute, *Changing the fortunes of America's workforce: A human capital challenge*, 2009, p. 3.  
[http://www.mckinsey.com/mgi/reports/pdfs/changing\\_fortunes/Changing\\_fortunes\\_Executive\\_summary.pdf](http://www.mckinsey.com/mgi/reports/pdfs/changing_fortunes/Changing_fortunes_Executive_summary.pdf)

Partnership for America's Economic Success, "Human Capital and Economic Growth"  
<http://www.partnershipforsuccess.org/index.php?id=15&MenuSect=3#humancapital>

<sup>2</sup> Government priorities such as national security, environmental safety, energy conservation and healthcare are all critically important for economic growth, but achieving results depends on the quality of the people working in each area. Mineral resources, geographic location and other natural endowments are also important, but again, creative-thinking, problem-solving and abilities to work in teams, self-initiate productive activity, form strong families and communities – all aspects of human capital – are needed to effectively use natural endowments. Bottom line: if a country doesn't get human capital right, it won't matter much what else it does or what resources it has initially.

According to 2009 report by Mission Readiness ([http://www.missionreadiness.org/about\\_us.html](http://www.missionreadiness.org/about_us.html)), of the 39 million young adults aged 17 to 24, the Pentagon reports that 75 percent (29 million) cannot qualify to join the U.S. military. Of the multiple reasons why young adults are ineligible to serve, the three biggest are failure to graduate from high school, criminal involvement and physical unfitness. U.S. businesses will not be able to find the employees they need, and, as a nation, we cannot build a strong workforce, achieve fiscal sustainability, or compete in a global economy if so many of our young adults cannot qualify to perform one of the basic elements of citizenship.  
<http://cdn.missionreadiness.org/NATEE1109.pdf>

<sup>3</sup> For a discussion of future workforce skills, see, for example, *Critical Skills and Resources for the Changing Workforce: Keeping Skills Competitive*, Society for Human Resource Management and the Wall Street Journal, June 2008.  
<http://www.shrm.org/Research/SurveyFindings/Articles/Documents/Critical%20Skills%20Needs%20and%20Resources%20for%20the%20Changing%20Workforce%20Survey%20Report.pdf>

<sup>4</sup> Development gaps begin to appear as early as 18 months. A language-rich environment provides a strong foundation for literacy, and an environment with fewer opportunities to hear a wide vocabulary sets children back. Regarding brain research, see for example, *The Science of Early Childhood Development: Closing the Gap Between What We Know and What We Do*, Center on the Developing Child, Harvard University, January 2007.  
[http://developingchild.harvard.edu/index.php/download\\_file/-/view/67/](http://developingchild.harvard.edu/index.php/download_file/-/view/67/)

<sup>5</sup> The Obama administration is taking steps in this direction. See Peter R Orszag, "Increased Emphasis on Program Evaluations", Memorandum for the Heads of Executive Departments and Agencies, October 7, 2009.  
[http://www.whitehouse.gov/omb/assets/memoranda\\_2010/m10-01.pdf](http://www.whitehouse.gov/omb/assets/memoranda_2010/m10-01.pdf)

---

<sup>6</sup> Regarding the longitudinal findings of established early care and education programs, a good recent survey is T Bartik (2008) "The Economic Development Effects of Early Childhood Programs", Upjohn Institute.  
[http://www.partnershipforsuccess.org/docs/researchproject\\_bartik\\_200802\\_paper.pdf](http://www.partnershipforsuccess.org/docs/researchproject_bartik_200802_paper.pdf)

"Telluride Standards for Investing in Young Children", Telluride Economic Summit, September 23, 2008  
<http://www.partnershipforsuccess.org/index.php?id=37&MenuSect=2>

## **Telluride Standards**

Long-term US economic strength and fiscal sustainability depends on our future workforce. Investing in children is a vital economic growth strategy and a priority of business, government and philanthropy. Private and public resources are limited and should be allocated based on evidence of effectiveness. To provide a framework for understanding and discussing how to allocate resources for investing in children, the Telluride Summit proposes the following standards.

1. **Maximizing the life success of every child in America is our highest priority.**
  - a. Every child has an equal right to achieve his or her full potential.
  - b. The earliest investments in a child's development appear to have the highest returns and have the greatest effect if support continues through adolescence.
  - c. Achieving full potential requires attending to a child's physical, emotional, cognitive and social capabilities; cultural diversity, and unique needs.
2. **Involvement of parents, family and other loving adults is crucial to a child's life success.**
  - a. For best development of the whole child, parents, families and other loving adults need to be involved, wherever possible, at every step.
  - b. There should be a variety of good options for obtaining high-quality child development services.
  - c. Ending generational cycles of ineffective parenting is vitally important.
3. **Children are helped most and the economy is made strongest when resources are allocated on the best evidence of what will lead to positive child outcomes.**
  - a. Public and private funders should allocate resources (for children and for other purposes) based on rigorous evidence of effectiveness in improving outcomes whenever possible.
  - b. Policy officials, service providers, and parents should be accountable to each other and to the children and families they serve.
4. **Sound performance evaluations can ensure goals are attained.**
  - a. High-quality child development programs need to have clear goals, rigorous evidence of likely success and draw on best practices -- when possible, proven practices should be relied upon to ensure benefits.
  - b. Ongoing performance evaluation, flexibility and continuing quality improvement should be built in at the beginning of program operation and funding design and continue throughout.
  - c. Evaluations should never be used to penalize children.
5. **Child development programs that use private and public incentives and are scalable will be stronger.**
  - a. Parent and family aspirations, and the incentives of for-profit, non-profit, and government health, nurturing and education providers, are powerful forces that can benefit every child and make the economy stronger.
  - b. Programs that can be replicated in other communities and expanded regionally or nationally are more desirable.
  - c. As programs are scaled up, they must not be watered down.

<sup>7</sup> R Grunewald and A Rolnick (2003)  
[http://econpapers.repec.org/article/fipfedmga/y\\_3a2003\\_3ai\\_3amar\\_3ap\\_3a14\\_3an\\_3av15no.2.html](http://econpapers.repec.org/article/fipfedmga/y_3a2003_3ai_3amar_3ap_3a14_3an_3av15no.2.html)

<sup>8</sup> R Grunewald and A Rolnick (2003), "Early Childhood Development: Economic Development with a High Public Return."  
Federal Reserve Bank of Minneapolis, Fedgazette  
[http://econpapers.repec.org/article/fipfedmga/y\\_3a2003\\_3ai\\_3amar\\_3ap\\_3a14\\_3an\\_3av15no.2.html](http://econpapers.repec.org/article/fipfedmga/y_3a2003_3ai_3amar_3ap_3a14_3an_3av15no.2.html)

---

Bartik, Timothy, Dickens, William and Baschnagel, Charles (2008). [Long-Term Economic Benefits of Investing in Early Childhood Programs: Proven Programs Boost Economic Development and Benefit the Nation's Fiscal Health](#).

<sup>9</sup> A. M. Florini, "Does the Invisible Hand Need a Transparent Glove? The Politics of Transparency", Carnegie Endowment for International Peace, 1999.  
<http://info.worldbank.org/etools/docs/library/18299/florini.pdf>

For examples of state transparency and performance disclosure efforts see:

**Virginia:** [www.VaPerforms.Virginia.gov](http://www.VaPerforms.Virginia.gov). The Virginia Performs Web site, launched in January 2007, tracks performance toward the state's goals in such areas as the economy, education, public safety, health and family and more. The site provides data on about 50 societal outcomes, including local, regional and statewide data that all answer the question, "How is Virginia doing?" Citizens can see on the Scorecard at a Glance whether the state is improving, maintaining or worsening on specific quality of life indicators that lead towards a state goal. Citizens can also examine state agency strategic plans and performance measures to see whether agencies are meeting them. The Web site also has two unique features, including a mapping section using a Geographical Information System (GIS) that allows users to select and view performance data by region or locality, as well as a live chat feature, through which online users can chat with representatives from various government departments. For more information on Virginia Performs, see this PowerPoint from the Council on Virginia's Future.

**Iowa:** [www.ResultsIowa.org](http://www.ResultsIowa.org). The Results Iowa Web site provides the governor's Strategic Plan that lays out the priorities for the state. In addition, the site provides information for each department within state government, including strategic plans, performance plans, and performance reports that departments use to chart their progress. By clicking on any of the departments, users will find these resources as well as an overview of how the state is doing on the specific departmental measures, and what the department is doing to improve their performance on those measures.

**Utah:** [www.Performance.Utah.gov](http://www.Performance.Utah.gov). The Performance Elevated Web site lays out the governor's priorities as well as state agency performance information. Each agency page contains leadership information, a mission statement, and performance reports by topic.

Source: Pew Charitable Trusts, Pew Center on the States.  
[http://www.pewcenteronthestates.org/initiatives\\_detail.aspx?initiativeID=51210](http://www.pewcenteronthestates.org/initiatives_detail.aspx?initiativeID=51210)

<sup>10</sup> The United States General Accountability Office says in *Federal Debt Frequently Asked Questions* that "Large deficits and rising federal debt constrain future economic growth and living standards by reducing the amount of saving in the United States available for private investment" <http://www.gao.gov/new.items/d04485sp.pdf>

See also the work of US Budget Watch, a Pew-supported project run by the Committee for a Responsible Federal Budget.  
[http://www.pewtrusts.org/our\\_work\\_detail.aspx?id=598](http://www.pewtrusts.org/our_work_detail.aspx?id=598)