

Projected Slide:



Building a Productive Workforce and Strong Economy from Birth.

James J. Heckman
University of Chicago

First 5 Monterey County
March 8, 2012

Projected Slide:

California has a golden past, a troubled present and a precarious future.

Notes:

For many decades and in many ways, California has led the nation. Today, many of the problems California first faced have become national challenges.

The economy is stagnant, unemployment is high and prospects for growth in the near future are not great.

- There are deficits in budgets at all levels of government as revenues fail to keep pace with established commitments.
- On top of this, many commitments continue to increase: pensions and wages for public employees, health costs, social security, retirement funds, defense spending.
- As persons of all political persuasions acknowledge, these forces produce a situation where society is unable to finance socially and economically productive infrastructure: roads, schools, airports and investments to improve schools and the workforce.

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California has a golden past, a troubled present and a precarious future.

Notes:

Social and economic inequality is increasing, as is uncertainty, creating a divided society and a polarized, bewildered, and politically unstable electorate.

- Stagnant growth in wages and incomes for most workers except for the highly skilled.
- Over long stretches of the past 30 years, a decline in the real wages of the least skilled.
- The disadvantaged are under stress and so is the middle class.
- Housing is the principle asset of most Americans.
- Yet 30-40% of mortgages are “underwater” as housing prices continue to decline in many markets.

Efforts to reduce inequality, increase productivity and lower deficits have been mired in politics and polarization instead of practicality.

Social and economic data show a clear solution: making sound investments in early childhood development and sustaining them through schooling to achieve significant gains in workforce quality, value and productivity.

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Face economic and political realities—embrace innovation and creativity in policy.

Notes:

These are the challenges that we must address:

- Reduce state and national deficits.
- Increase productivity in the workplace, in schools and in governments.
- Reduce economic and social inequality and promote social mobility and economic opportunity for all.
- Aid the shrinking middle class.

Today I want to discuss a way to tackle all of these problems head-on.

- I will discuss policies that address major fault lines in American society that American economic and social policy have ignored for 40 years.
- If we address these problems, we can we meet this challenge head-on.
- We will bequeath a better future for our children and our children's children.
- My question for today is whether we have the courage to make the right cuts and the wisest investments to promote growth and competitiveness.

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Smart investments start by addressing a major root cause of inequality—*families and disadvantaged early childhoods.*

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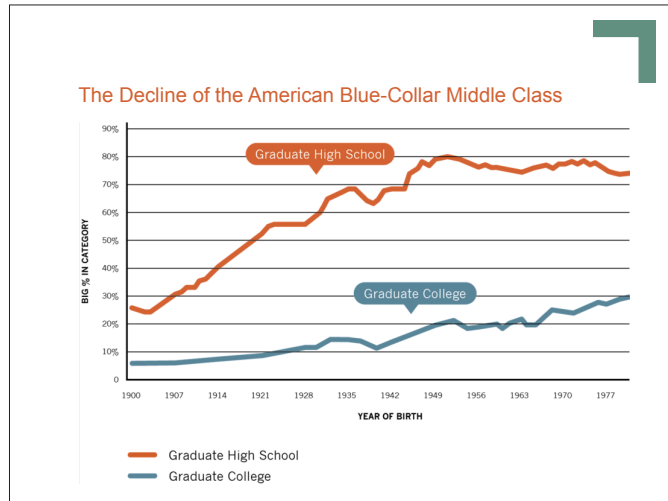
If we do, we can solve many of the problems you face here in Monterey—the divide between the haves and have nots; a better-educated workforce; more productive employees and profitable businesses; fewer deficits and greater opportunities for our children.

We can build a stronger economic future by making smart investments in human capital development—our people are our greatest economic resource.

The Problem:

- The skills of our people are a major source of productivity for the economy. The livelihoods of most people depend on their skills and on the compensation they receive for them.
- Skills in any modern society are the major determinants of social advantage and disadvantage.
- The importance of skills has become more pronounced in our age of globalization and skill-biased technical change where the wages of high-skilled labor have increased much faster than those of less-skilled labor.
- At the same time, America's rate of producing skilled workers has slowed. The high school dropout rate has increased for male cohorts born after 1950.
- Two Americas have emerged.
- Growing inequality in incomes and in social inequality. By conventional measures, our inequality in family income is now very close to that of Mexico and has increased a lot in the last 40 years.

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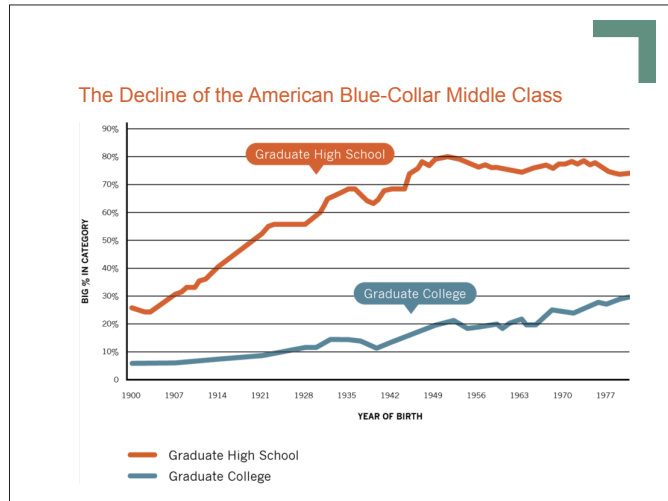


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Notes:

American public policy has ignored one of the fundamental sources of this inequality.

In his prize-winning book “Fault Lines,” my University of Chicago colleague Raghuram Rajan notes that the subprime crisis, which triggered financial market failure and the crash of 2007-2008, and which haunts us today as housing prices continue to decline, was due in large part to American public policy to combat inequality in the labor market and the economic squeeze on the middle class.

We used cheap credit to address the problem of declining and stagnant real wages rather than attacking the basic problems producing inequality.

Instead of addressing the core problem of the failure of American society to produce sufficient skills, we gave the middle class credit, including cheap mortgages and low down payment requirements to boost consumption in the face of declining or stagnant real wages.

We now know that this policy backfired in many ways. Addressing the problem of inequality in this fashion and financing it the way we did had catastrophic results for world markets.

Political groups on both sides of the aisle have sought to (literally) paper over deep structural problems with cheap credit, and this strategy blew up in our faces.

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Don't paper over
the facts.

Notes:

To face these challenges in an informed way, we need to be aware of the following realities:

- There are many trends in the world economy which we cannot easily fix. Globalization and the pace of technical change are important features of the modern economy.
- Policies designed to shut down trade or oppose basic economic forces cannot possibly succeed and, however politically popular, will only worsen our position, especially in the long run.
- Implementing protectionism, fighting China over trade policy or its exchange rate policy, and opposing technical progress by work rules are fruitless and costly activities which arouse passion and divert attention from addressing our fundamental problems.
- Like the legendary King Cnut the Great who thought his powers so vast that he could command the waves to subside, we cannot deny or reverse basic economic and social forces.



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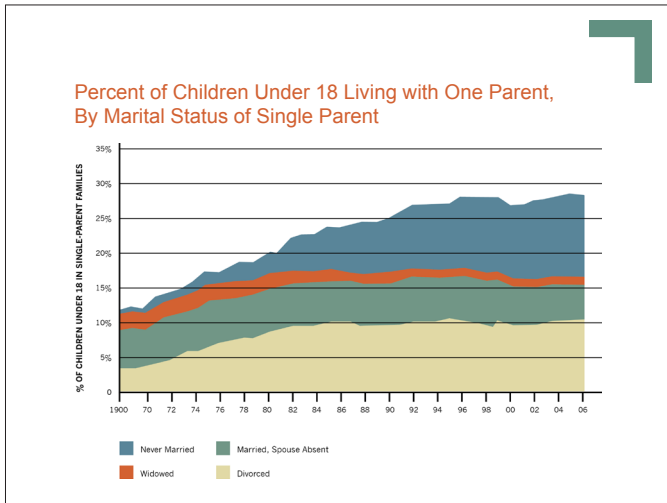
The accident of birth
is a major source
of inequality.

Notes:

- The currents of the world economy flow deep and we must swim with them and adjust to them because they define the modern world in which we live.
- Minimum wage policies, extensions of union bargaining power and other policies that boost wages but reduce employment—help a few and also hurt many.
- Boosting the skills of the population attacks the fundamentals and raises the productivity of society while reducing inequality.
- Modern research in economics, psychology and neuroscience shows the power of the family in producing the skills that matter.

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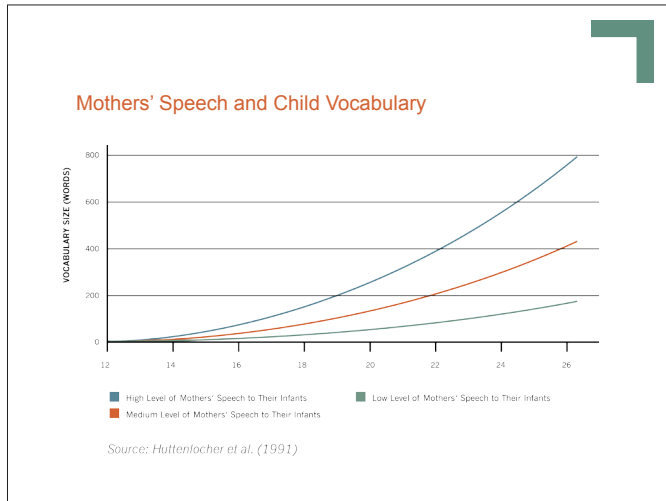
Notes:



Family life in America

Family life has worsened for many children. (*Show graphs of % of children reared in different types of family environments.*)

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Notes:

How do families produce advantage and disadvantage across the generations?

- It's not just through the transmission of genes, although genes are important.
- It is not just through access of children to financial resources so that it is simply a matter of giving more income to the families.
- An overwhelming body of evidence suggests that parenting plays a crucial role—what parents do and do not do; how they interact with and supplement the lives of their children, especially their early lives.
- Simple genetic arguments are inadequate.
- Genes are triggered by environments.

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To foster the skills of
American children, we
must help troubled
American families.

Notes:

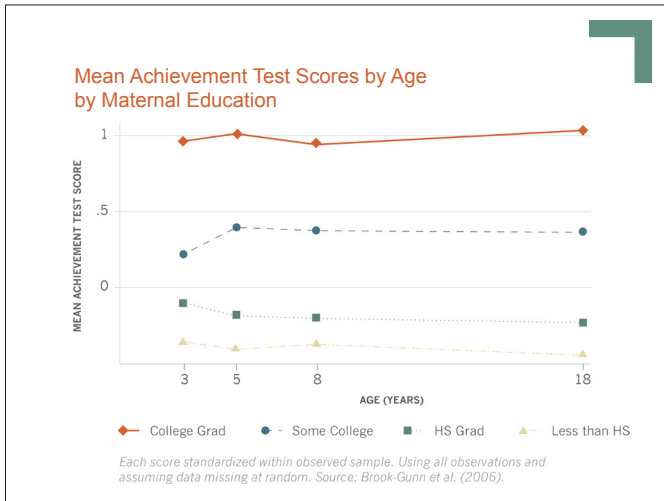
Help troubled families

- The central role of the family in producing child skills and in forming character has been known from time immemorial.
- Politicians and scholars of public policy need to understand that the base of skills needed for success in life are formed before children enter school.
- The gaps open up early and persist.
- Schools do little to enlarge or narrow these gaps.
- The gaps are already very wide at age 3.

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Notes:





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Family income at the age a child applies to college isn't as important as the skills of a child at the age the child applies to college.

Notes:

The importance of skills

- Controlling for the child's ability measured at the school-going age, in the U.S., minorities are more likely to attend college than others despite their lower family incomes.
- Their lower ability at the time college enrollment decisions are being made is the cause of their lower schooling attainment rate.
- Deficits in college going across minority and majority groups are not caused by high tuition costs or low family income at the age children are deciding to go to college.

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Notes:

Can ability differences explain racial-ethnic schooling gaps?

	White-Black Gap	White-Latino Gap
HIGH SCHOOL COMPLETION GAP		
Actual White-Minority Gap	.06 (.01)	.14 (.02)
Ability Adjusted Gap	-.14 (.03)	-.12 (.04)
COLLEGE ENTRY PROBABILITIES GIVEN HIGH SCHOOL COMPLETION		
Actual White-Minority Gap	.11 (.02)	.07 (.02)
Ability Adjusted Gap	-.14 (.02)	-.14 (.04)

Source: Cameron and Heckman (2001)

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Character is a central ingredient for success in school and in the workplace.

Notes:

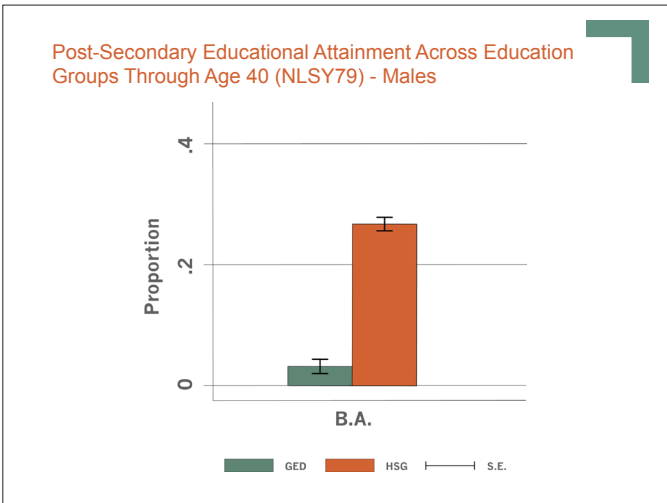
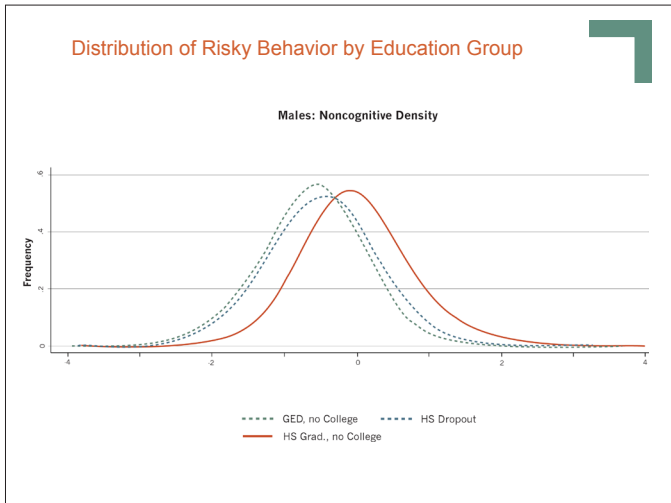
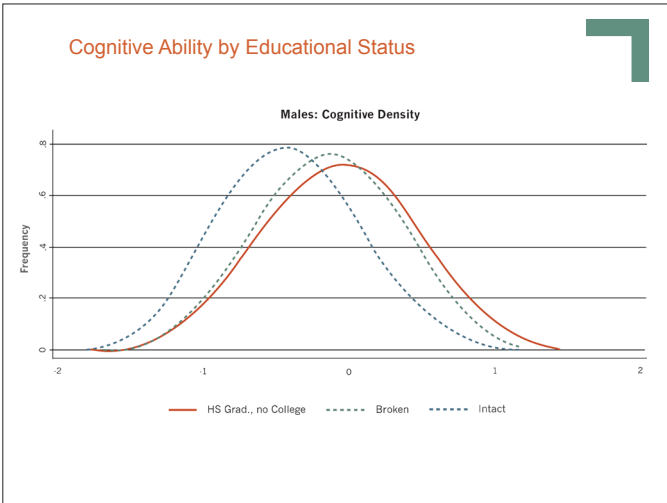
In discussing the skills that matter, we need to broaden our vision of the skills that matter for success in life.

Public officials need to recognize the importance of what are sometimes called “soft skills” or “character,” or personality traits.

- An emerging body of evidence shows that, as is intuitively obvious and commonsensical, much more than smarts is required for success in life.
- Cognitive skills as measured by achievement tests are important but so are the socio-emotional skills often called “character traits”:
 - Motivation
 - Sociability; ability to work with others
 - Attention
 - Self Regulation
 - Self Esteem
 - Ability to defer gratification
 - Health and Mental Health
- There is hard evidence on soft skills. They matter—they can be shaped.
- Along with cognitive skills, they determine success in school and in the labor force and in life.

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The GED shows the critical role of character in the job market.

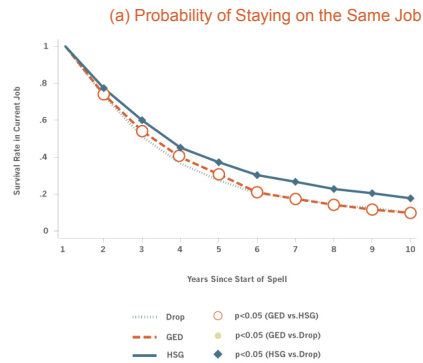




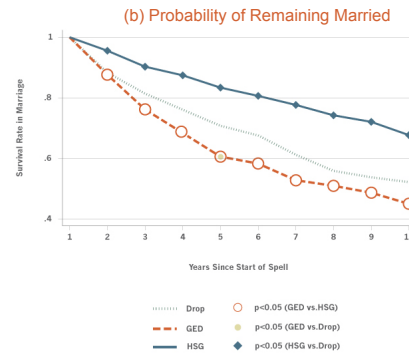
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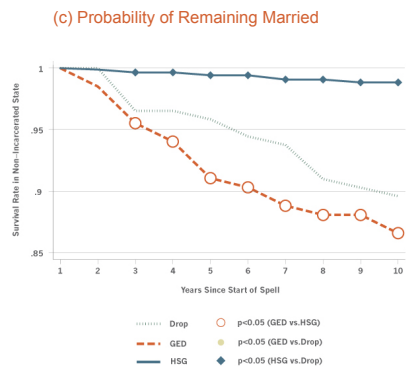
Survival Rate in Various States for Male Dropouts, GED Recipients and High School Graduates



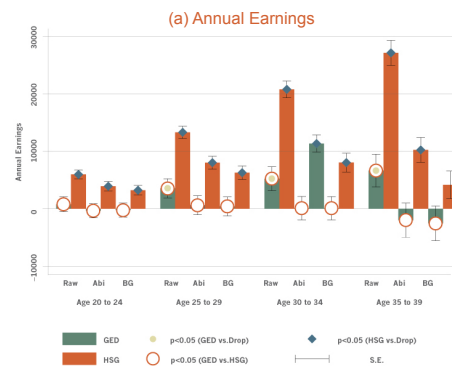
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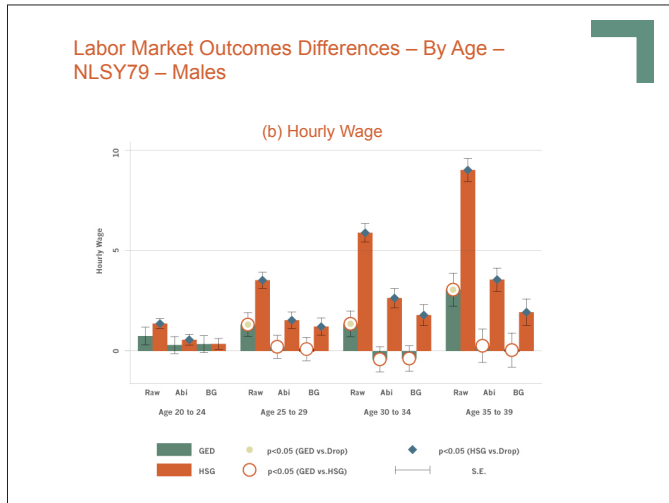


Labor Market Outcomes Differences – By Age – NLSY79 – Males



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Don't favor cognition
over character—
develop both from birth
to school, college and
career training.

Notes:

The importance of the early years: skills beget skills

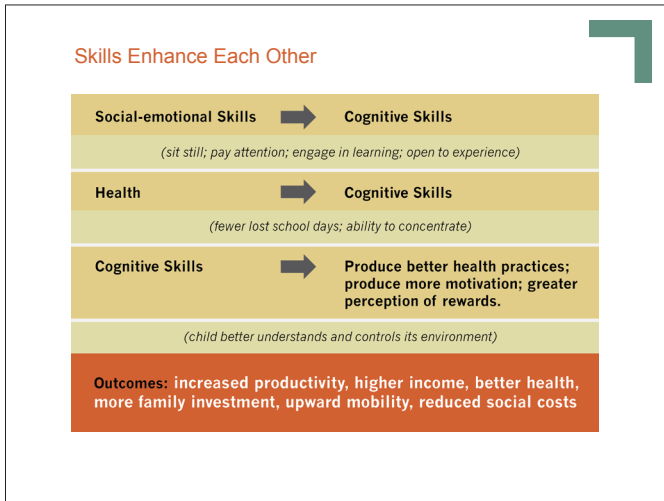
- Based on a modern understanding of the life cycle of skill formation.
- Skill formation is dynamic in nature—skill begets skill.
- More motivated and healthier children are better learners.
- The process is dynamic and feeds back on itself—academic success promotes greater self-confidence and a willingness to explore.



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Notes:



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Invest in prevention,
not remediation.

Notes:

Investing in early childhood development is both economically efficient and fair.

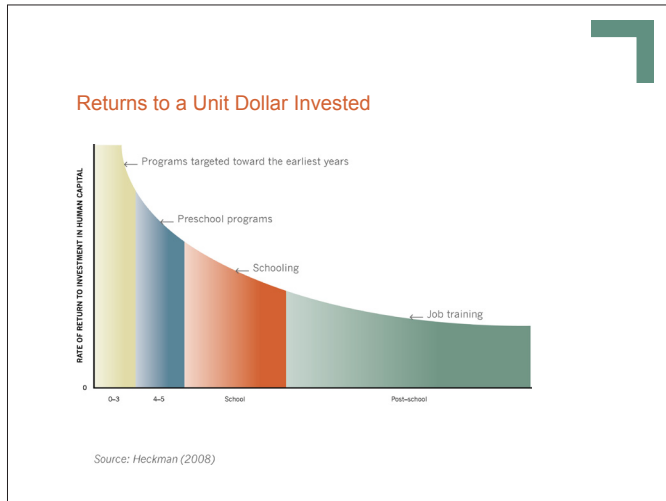
The logic of the plan: prevention—not remediation

- The approach that I am proposing addresses the problems of health and crime that plague American society.
- Prevention—not remediation; predistribution—not redistribution and compensation in the adult years.
- If parents support their children and engage them, the children learn more and engage more.
- The early years are the years of great development and strategies for investment in early childhood produce the highest returns.

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Notes:



- Remediation strategies as we currently have developed them are much less effective. (Show graph on rate of return by age.)
 - This figure presents the rate of return to a unit of investment at the beginning of life.
 - It suggests that returns are the highest for early investments and that more should be invested early on.
 - For disadvantaged children, we invest more in later-life remediation than early-life prevention and skill formation.



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Supplement the resources of disadvantaged families to achieve better outcomes.

Notes:

- None of this says that we should not support the schools.
- But much of the measured benefit to education comes from the traits acquired before children enter school.

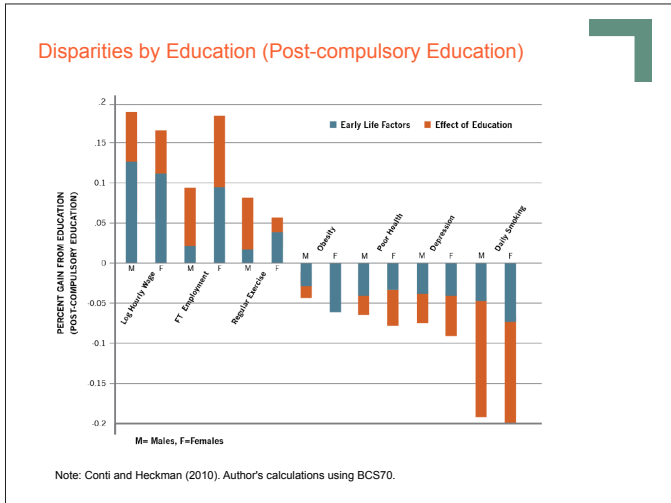
What about promoting education?

- Favorite goal of many entrepreneurs.
- Boosting the capabilities of children entering schools will boost the benefits of education.
- These capabilities account for a substantial chunk of the benefits from schooling.

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Notes:



- Education, Wages, Employment and Health

Projected Slide:

Sustain early gains:
focus on *cognitive* and
character development
through school, college
and career training.

Notes:

How to aid struggling families? What is an effective child policy?

- Unlike proposals by Plato and countless other thinkers, do not replace or attack the family, but supplement it.
- Recognize the dynamics of skill formation—the biology and neuroscience that shows that skills beget skills; that success breeds success; that disadvantage literally gets under the skin and retards the development of children in terms of health, character and smarts.
- We have effective programs that have been proven to work—we should expand and improve them:
 - Perry and Abecedarian and other programs patterned after them
 - Parental coaching, home visitation, Nurse-Family Partnership
 - Educare (closely patterned after the Abecedarian program)
- Perry has been evaluated in long-term follow-ups over 40 years—it shows rates of return of 7-10% per annum—higher than the return on equity 1945-2008.
- These programs work because:
 - they start early
 - supplement the family by working with parent and child
 - produce high levels of cognition and character, with a strong boost to the character skills that matter
 - they are voluntary and do not impose on the sanctity of the family



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Sustain early gains:
focus on *cognitive* and
character development
through school, college
and career training.

Notes:

We need to build on the success of early investments.

- Need later life support of cognitive and character skills to prevent fade out.
- Need to link ECD systems with K-12 systems in practices, data collection and evaluation to prevent fade out and encourage improvements based on solid evidence.
- Education starts at birth and even before birth (through educating the mother) and should continue through the career. We have to devise effective *life-cycle* strategies.



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Align the tools of educational evaluation with the true predictors of achievement in the workplace and in life.

Notes:

- Relying on achievement tests that only measure cognitive achievement provides a false sense of progress and a poor measure of value.
- Character skills in education development can and must be measured because they are critical skills in the employment market and the drivers of productivity for individuals and the businesses that employ them.

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Notes:

Summary

- Progress can't be stymied by debating whose responsibility this is.
- Effective human development requires the active participation of all in appropriate ways: parents, government, business and civic leaders, faith-based communities.
- Because the private sector has such a stake in workforce development, they must be active in advocacy, development and funding. Government cannot do it all, nor should it. It's something we all should do.