



# Summary of Meeting with Art Rolnick

Civic Caucus, 8301 Creekside Circle, Bloomington, MN 55437

*November 19, 2010*

**Guest speaker:** Arthur Rolnick, retired senior vice president, Federal Reserve Bank of Minnesota, and currently senior fellow, Humphrey Institute, University of Minnesota.

**Present:** Verne Johnson (Chair, phone); David Broden, Janis Clay, Paul Gilje, Jim Hetland, Sallie Kemper, Ted Kolderie, Dan Loritz, Tim McDonald, Jim Olson (phone), Clarence Shallbetter, Bob White

**Summary of Rolnick's comments :** *Humphrey Institute Senior Fellow and former Federal Reserve economist Art Rolnick describes the process of his becoming involved in early childhood education, including developing the economic case for investment in quality early childhood programs, and designing a market-based system that provides scholarships to low-income families to use at quality programs.*

*The Minnesota Early Learning Foundation (MELF) was formed to support this system, and has been supporting pilot efforts of this market-system since 2005. MELF provides families with the means, information, and mentoring to choose quality programs. The system has broad appeal, and has garnered interest elsewhere in the country and in Washington, D.C. MELF has plans to expand pilot efforts and bring it to scale. Sustainable forms of funding and evaluation are being examined.*

**A. Welcome and introductions** -Art Rolnick is a senior fellow at the Humphrey Institute, and was senior vice president and director of research at the Federal Reserve Bank of Minneapolis from 1985 to 2010. As a top official of the Federal Reserve Bank, Rolnick regularly attended meetings of the Federal Open Market Committee-the Federal Reserve's principal body responsible for establishing national money and credit policies. He has written extensively on the 'too big to fail' problem, and the economics of early childhood development.

He has been a visiting and associate professor at various colleges and universities, and serves on nonprofit boards including the Minnesota Council on Economic Education, Greater Twin Cities United Way, Citizens League of Minnesota and Ready 4 K. He was also on the Minneapolis *StarTribune's* Board of Economists, and was a member of Minnesota's Council of Economic Advisors. He was named 2005 Minnesotan of the Year by *Minnesota Monthly* magazine.

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

**B. Comments and discussion** -During Rolnick's visit with the Civic Caucus, the following points were raised:

Art has been active for some years in public affairs and became involved with early childhood issues, in particular, about ten years ago. The Civic Caucus is interested both in an update on his work in early childhood, as well as his views on actions needed for the future expansion of state jobs.

"I'd like to link the two," Rolnick opened, "because addressing early childhood development will be the greatest economic development tool we could have."

### **It makes economic sense to be involved in early childhood**

It's a little bit unusual for the Federal Reserve to be involved in early childhood, Rolnick said, noting that his specialty is pre-civil war banking (when states as well as banks issued their own currency). A few years ago he became involved with a small group that would gather and invite a CEO to join and talk about a passion. They brought in Todd Otis of Ready4K, and others, to talk about early childhood.

"They were making a moral argument that I agreed with," Rolnick said, "but I told them that if you're going to move this in policy you've got to have the economic argument as well." They agreed, and soon came back with a request for Rolnick to become involved and help in making the case. "So I did."

### **The science supports starting early**

"Everything needs to be rooted in science," Rolnick said, so far as it can be. "When it comes to understanding the importance of reaching young people as early as possible-pre-natal-the science is pretty clear." This has significance for figuring an economic impact.

Rolnick described that in doing his initial research various studies led him to recognize the significance of early childhood development; this was particularly revealing in a case of brain imaging performed on Romanian orphans. The most poignant finding of that report was that orphans that had been starved of human attention had a brain one third the size of a normal, healthy child.

He explained that his mentor on the topic is Jack Shonkoff, who edited a book titled 'From Neurons to Neighborhoods' ( <http://tinyurl.com/243rgkr> ) and, "says the debate between 'nature and nurture' is over." Brain development in early childhood is essential, Rolnick said, and it is all based on experience. If a child is neglected or abused, or if the communication is all one-way command interactions, then the rapid neuron connections made in the early years of development are stunted.

The studies that Rob Grunewald, Rolnick's colleague at the Federal Reserve, looked at-"the classics"-began in Michigan in the early 60's. One study took 123 at-risk families, and divided them into two groups. The first group received high quality early education options that involved focus and master-level teachers. This was contrasted with a control group. "What they did was invest \$10,000 in today's dollars in child care programming-quality programming-and found that the kids that were in the program were doing much better than those in the control group."

Rolnick and Grunewald then did a study, projecting out dollars that could be saved by placing figures on various social costs, including dropouts and incarceration. They sought to determine how much

money was saved over time in real terms, and so pegged the projected savings to the growth of the stock market-5.8 percent over the period of the study.

They found an average 16 percent annual inflation-adjusted return, with rates ranging from 8-20 percent. And he suspects the benefits reach much farther: "We found out later that the parent income also went up for those whose children were in quality care, and now we are just starting to get data on the children of the children."

See a report here: <http://tinyurl.com/2gxqcfs> .

"We challenged the academic community to find a better investment for the public funds, and have received no response."

### **The Minnesota Early Learning Foundation (MELF)**

After some time working on the research and after beginning to design the outlines of a sound market system for early childhood, Rolnick met Warren *Staley*, CEO of Cargill, who was instrumental in bringing together a distinguished-but active-board that raised \$20 million to put these ideas into practice. These funds were used to create the Minnesota Early Learning Foundation.

As an organization MELF provides three key components:

1. **Information on quality:** Provides information on quality of early learning programs through the 'Parent-Aware' rating system (ratings are voluntary and 'opt-in'; see: ( <http://tinyurl.com/27etyex> )
2. **The means to utilize quality programs:** Funds no-strings scholarships to be used at programs rated with three or four stars; gives parents list of programs and they pick.
3. **Mentoring for families:** Outsources mentoring services to an established seven-county organization called Metro Alliance that forms relationships with families to identify their needs and explain options.

### **Bringing the model of the MELF system to practice**

To bring this model to the real world Rolnick outlined five challenges that must be met:

1. Start earlier than 3-4 years old
2. Focus on parents
3. Focus on at-risk children first
4. Incentivize quality of program
5. Ensure scalability of system

The question facing policy, Rolnick argued, is to determine how to set up a system that will meet all of these criteria at once. As two economists, Rolnick said, he and Grunewald focused on markets. They looked at higher education and thought about the need to empower 'consumers'-which brought them to the idea of scholarships for programs.

They then considered the question of how to reach children earlier than the program age of 3-4 years. This led to the idea of "scholarships-plus," or getting trained mentors to reach out to families at-risk by going into homes and beginning to work with them earlier in life-pre-natally if possible.

After raising private funds to finance the Parent Aware quality rating system and the scholarships, MELF decided to do a pilot in St. Paul. "We publicized that if you live in Frogtown and your income is 125 percent of the poverty level, then congratulations, you have a scholarship." It doesn't matter if a family moves or wins the lottery, Rolnick said; the scholarship is theirs. Families are provided a map with programs in their area and the program mentors assist families in finding programs that fit.

### **Create a replicable market-based system, not particular programs**

The motivation behind creating MELF was to construct a replicable system, not to favor particular programs. If the system is sound, with the proper information, means, and incentives for parents and providers, the quality and supply will be there to meet demand.

It is essential to be able to bring any good system to scale, Rolnick said. The Harlem Children's Zone is a remarkable success, "but I'm not Geoffrey Canada-don't know how to be Geoffrey Canada." Instead, a system could be constructed that rewards people like Canada that create superior programs by providing the means for families to choose them and pay them. "Scholarships are very easy to bring to scale," Rolnick said, "and the other components of the system (ratings, mentoring) are straight forward."

### **Customize everything**

"We customize everything," Rolnick said-there is no one size that fits all. And he emphasized: MELF is a system that rewards quality-rated programs by providing families with scholarships to attend those programs. MELF and the Parent Aware rating system do not, themselves, promote any particular program models over others.

"We customize the experience through mentors, and by not being program-specific." Instead the scholarships may be applied to any 3- or 4-rated programs anywhere, and the system is very flexible-there many different models with different pedagogies, and from faith-based to community based.

"I believe the more you can engage parents, the better you will do," Rolnick said, and that "A sound system will see more diversity in educational approaches.

### **Results will be observable and it will be easy to determine if the system is successful**

"Within six months we will find out how successful our program is," Rolnick asserted. Minnesota has a school readiness assessment; in St. Paul 50 percent of students don't pass. "We expect that all of our scholarship children will pass. You will know if we succeed or if we fail." MELF will be doing longitudinal studies out of the Humphrey Institute.

Rolnick said that he could tell already, anecdotally, that progress is being made. The quality of programs is rising, good program providers are coming in to new neighborhoods, and testimonies are coming in. He told a story of a mother who returned from service in Iraq, and was struggling to raise

two young children herself-not doing well. Her minister suggested she might qualify for MELF scholarships for her children, and she did. Her children entered high quality programs and the results have been remarkable. "She showed me drawings done by the children before and during program; you can see the colors change over time until they grew vibrant, and the imagery evolve."

Some significant aspects of the program won't be captured only by the children's performance. Rolnick described the importance of reducing the stress on a family, and the effect that may have on improving health for the parents and children, and helping the parent to secure work.

Even so results must be observable, Rolnick argued. "Non-profit organizations are increasingly focusing on outputs, not just inputs-measurable outputs." Steve Rothschild does this with his Twin Cities RISE program, and has been making a compelling economic argument. (See notes from his February discussion with the Civic Caucus here: <http://tinyurl.com/2dn8nux> )

### **Utilize publicity, word of mouth, and existing networks to identify participants**

Metro Alliance has working relationships with communities and families. They form bonds with the families, helping to connect them to existing social services, even making sure members of the family are taking their medicine properly. This positions them well to contract with MELF to help explain the scholarships and options available to families for early childhood programs, as well.

"The mentors need to be well trained," Rolnick noted. For the most at-risk families the mentors are particularly important. But they have to be qualified-they need to have medical and educational skills. "This takes some heavy lifting, but is not that expensive. It's about \$3,000 per year per family. When you tie that to the long-term impact, it is a small amount on the front-end" and is built in to the cost of the program.

He made sure to emphasize that mentors are different from caseworkers: "It's a different frame of mind. Some critics say this is the government coming in and telling you what to do. No, the parents make all decisions. Others wonder if the parents aren't so dysfunctional that they won't actually use these scholarships. That's just not true-with the help of these mentors, all do."

### **Create healthier conditions for families**

"People say we need to change the culture of low-income communities. I don't know how to change the culture-but I do know if you empower parents then their outlook changes, behavior changes, and the students' experience changes."

Fathers are largely absent, a participant observed-and distant from the family. Here too, Rolnick said, he is not sure how to address the problem directly other than the mentors' having some success incorporating the fathers as they come to know the family. "But we do know if they have the mom and baby bonding right, early on, we can have some very positive long-term results."

It is especially important to relieve the stress in the family, so if the father is abusive that needs to be addressed. Or, if bringing the father back into the family helps to relieve the stress then that can be helpful as well. The mentor is best positioned to assess this, but has a limited capacity to affect such change.

## **The supply of programs has been responding to demand**

To a question from a participant, Rolnick said that as scholarships have become available both the quality and quantity of early childhood programs has responded. And, "I'm going to argue the market will continue to respond."

Shortly after they announced the deployment of scholarships in the Frogtown area of St. Paul New Horizons broke ground on a new facility. At the same time St. Paul Head Start and Montessori expanded-and then programs near the area began improving in quality. Both the quality of existing programs improved and new, high-quality programs were introduced.

## **Seeking alternative ways to finance the program as it goes to scale**

At present the ratings, scholarships, and mentors are financed by private donations that were raised at its inception and set to sunset in 2010. MELF is looking at different ways to fund the program. One option is tax credits for families, though an alternative-and Rolnick's preference-would be to create a \$1.8 billion endowed fund that could finance the scholarships and ratings system for Minnesota. There are three potential sources for these funds: One-third by redirecting a land endowment that presently goes to K-12; one-third through private sources; and one-third a federal match.

A participant wondered if there aren't more options still for creating supply, and securing financing-encouraging the creation of programs for example that are built off partnerships with districts, or the chartering platform for creating public schools. This could tap into existing public support for education, including county aid for childcare.

## **The system has broad appeal, and interest**

"This model has appeal beyond the Twin Cities," Rolnick noted-including the White House. I ended up with a two hour meeting with Rahm Emanuel on this topic. I can tell the White House: I've got a 'shovel-ready' stimulus project."

"I have been around the country talking about this, and am working with a number of governors on the issue. There is interest in New Orleans, and in Chicago.

"We think we have something that works. If this country could see that Minnesota is making this work, we could have a major impact."

## **The best employment and economic stimulus plan**

Turning to the state legislative priorities, a participant asked Rolnick what strategies he feels the legislature should pursue this session?

"You can't do much in the short run," Rolnick said. "Look what happened with the Federal government with the stimulus-it's very difficult to turn an economy that needs to make fundamental changes in short order.

"This (early childhood education) is the most effective employment and economic stimulus plan. You want to see new buildings and new employment-go look at New Horizons on University Avenue.

These are buildings, these are jobs. But more importantly it is the long-term return that warrants this investment."

### **So far it has been a challenging 'sell' to the legislature**

"Run your thinking back over past legislative efforts," a participant asked-what have been the results of efforts at securing money for early childhood?

There have been efforts at creating a national movement, Rolnick observed-but politicians have become frustrated because there is lack of focus. 'You say we're at A, and should go to B-but how do you go to B?' The proponents haven't brought a strategy, and the politicians have been unable to translate it. There was no model-no answer to the question, 'how?'

"The scientific literature drove us to this market-based approach, but we had to go to private financing."

So far the public financing has been elusive, and Rolnick argued it is a problem of priorities: stadiums get it; K-12 gets it. If any money becomes available, it gets absorbed, and certainly any new money is scarce. "These kids don't vote; and their parents don't vote; and the problem is kind of invisible. I'm the economist here, not the political scientist. Relationships are important though-we can build support around this."

"But the question is the strategy," a participant noted again. "Yes," he agreed, "and MELF is the strategy. I'm trying to make St. Paul as visible as the Vikings. Make the point that we know how this works; make the argument and make it as visible as you can; make it concrete, and be persistent."

Another option for financing could be to open up single-purpose charter authorizers to request innovative proposals for programs, and allow schools to work down to age 3, using the open and standing financing of public schooling to provide resources to programs. There may be a way to connect this to the sliding scale of the county's early childhood financing program.

### **A strategy for staged growth**

"People say this kind of choice-based system hasn't been tried before," Rolnick said; "I say it has. I live out in Plymouth where there are young families with countless choices for early childhood. They have money and information."

The next step is to develop new pilots. "The Heinz people told me: Start small, replicate." So the plan is to begin launching pilots on the north side of Minneapolis and the White Earth Indian reservation. Rolnick is also in conversations in Detroit, Chicago, and New Orleans to do small-scale efforts there. He is building networks of civic support now.

Once the pilots are established, Rolnick said, "when you're ready to go to scale it's not hard. You need a board, and scholarships. You can outsource the mentor component. We've got the business model. I tell people: I want to see that you can connect with families, and if so, it will work."

As a practical matter it helps to start a new pilot in a region that is adjacent to another region-probably wealthier-that already has quality programs running. It is easier for providers to migrate over to the underserved area.

### **C. Closing**

To wrap up, the chairman thanked Mr. Rolnick for his time, and for the conversation. He agreed that the discussion was valuable, complimenting the Civic Caucus model -"people listen to you; I want to say that. They have asked about you, and I said 'I'm going to speak to them!'" The same holds for other organizations as well-the state has an active civic life.