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A Share in Children's Success

By Daniel A. Epstein
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With the economic downturn squeezing budgets, college tuition and child care are becoming unaffordable for an increasing number of families. For many, the American dream is seeming more like, well, just a dream. But while you're dreaming, imagine a kid from rural Montana who, after scoring high on the SAT, has investors clamoring to finance his college education. Imagine General Motors investing in Detroit public schools as a long-term survival strategy. Imagine America's largest corporations and investors, after generations of putting fiduciary responsibility before social responsibility, suddenly finding the two to be inextricably intertwined. Imagine that we realize it is insufficient to be a stakeholder society; that we must also be a shareholder society. It seems far-fetched, but we could make this vision a reality by creating an equity market for human capital.

It starts with a number: 17. A 17 percent compound annual growth rate, to be precise. That's the astronomical potential return on investment of educational intervention on young children, according to the Nobel laureate economist James Heckman. The return manifests itself in increased future earnings and reduced social costs. Today, that 17 percent compound annual growth rate is inaccessible to investors, but if people could issue shares of their future cash flow, it would unleash that potential, initiating a massive influx of investment in children.

Consider a situation that is, unfortunately, all too common. A mother works two jobs, dropping her toddler off at a friend's house early each morning and picking her up late at night. The mother can't afford high-quality child care and, because of that, statistics show, years from now that child will be more likely to repeat grades, become pregnant while a teenager, commit crime, visit the emergency room and depend on welfare. One day that child will probably earn less than people with similar backgrounds who did receive high-quality child care.

But what if that toddler had something to offer investors? If she could sell a percentage of her future income in exchange for a coupon to receive child care and if the government offered tax credits to investors to compensate them for the decreased social cost that they finance, investors might compete to pay for her education. Millions of children would gain access to the financing that they need to reach their full potential, the government would reap significant savings and investors would profit handsomely. Furthermore, such a system would have revolutionary side effects.

Just as the stock market has allowed the invisible hand to guide funds to stocks that have promising growth potential, a human capital market would guide funds to people with promising potential to increase earnings and cut social costs. This is where the human capital market would transform society, because Heckman's research shows that the 17 percent compound annual growth rate is restricted to the poorest members of society. Think about it in reference to the law of diminishing returns: Investments make the biggest impact on investees with the most to gain. Now add the fact that children from wealthy families wouldn't need to issue shares, and we arrive at a solution to deficient human capital development; a solution to the problem of educational inequity.

But the market wouldn't just help the poor and their investors. Markets are information factories. They aggregate huge amounts of dispersed data to create a coherent picture of the value of investments. In exchange for shares, investors could offer coupons that could be redeemed for value-adding services such as early-childhood education, supplemental educational services, proper nutrition, specific curricula, school supplies or vocational training. Just as share prices in the stock market teach us over time what works in business, share prices in the human capital market would teach us what works in human capital development -- what works in education (a hotly debated issue). And learning what works would help everyone, regardless of income. But we need the information factory to learn, so we need a market.

Of course, daunting logistical and moral questions would have to be answered. But before we rule out this proposal on logistical or moral grounds, let us also consider the millions of Americans who will suffer inequity and injustice as a result of our inaction.

There is also reason for skepticism. Maybe it's too hard to believe that a capitalist strategy could promote equity. If so, keep in mind that the potential of the underlying asset -- the human -- is far more consistent across district borders and tax brackets than is the quality of education.

Research proves that there is untapped potential hiding in the shadows of society. It is imperative that we find answers to overcome our skepticism and that we find courage to overcome our caution so that we may tap that potential for our collective benefit. But to do it we can't just be a stakeholder society; we must also be a shareholder society.

The writer is an analyst and advocate for federal and state early childhood education policy for Knowledge Learning Corp., a national provider of early childhood education. The views expressed here are his own.