Human Capital, Early Childhood Development and Economic Growth

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While parents, along with some psychologists, sociologists and public-health experts, have long intuitively understood the importance of early childhood development (ECD), it is really only over the last quarter-century or so that scientists, physicians and social scientists have come to recognize the crucial role played by ECD. And it is only very recently that ECD has taken its place in the economic literature beside schooling, on-the-job training, public health and informal learning.

Successful ECD depends on the interaction of a number of factors. As is the case for the development of human capital in later years, the various factors influencing ECD interact multiplicatively to produce “success,” as measured by readiness to learn when entering primary school. Good health (of both mother and child), good nutrition, good parenting, strong social supports and stimulative interaction with others outside the home all combine to provide the best chance of success. Since neglecting investment in any one of these areas reduces the value of investment in other areas, investments to improve pre- and post-conception health of the future mother are a crucial input to ECD. Thus, support of all types to improve parenting during this

period is crucial. This support includes development of parenting skills, social support, employer and government support to increase the amount of time parents can spend with their children and, in some cases, direct income support.

In the final period of ECD – roughly ages three through five – the research demonstrates clearly that some form of ECD outside the home makes a very important contribution to the development of the child. This form of intervention, in combination with effective parenting, would appear to significantly increase the chances of a child being "ready to learn" when he or she enters primary school.

The issue then arises as to the appropriate allocation of public (and private) funding for human capital formation. To generate the maximum total return on investment in human capital, it is important that new investment be allocated efficiently at the margin – just as is the case for physical capital. Thus, it is critical to try to ascertain the return at the margin for different types of investment in human capital – a very difficult exercise. And we should not be surprised that empirical research does not produce definitive numerical results. So while it seems clear that, at the margin, public investment in human capital should be directed towards the very young, how to make those investments most productive is far less clear.

Note:

This text is adapted from Dr. Dodge's Keynote address "Human Capital, Early Childhood Development and Economic Growth: an Economist's Perspective," delivered at the Sparrow Lake Alliance's Annual Meeting, May 2003. Dr. Dodge, who spoke at this event in a personal capacity, has approved this excerpt.