Janet Yellen: Strong foundations - the economic futures of kids and communities

Welcoming remarks by Ms Janet L Yellen, Chair of the Board of Governors of the Federal Reserve System, at the 10th Biennial Federal Reserve System Community Development Research Conference "Strong Foundations: The Economic Futures of Kids and Communities", Washington DC, 23 March 2017.

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I would like to welcome all of you and thank you for joining us to discuss a set of topics of considerable importance to our country. This is the Federal Reserve's 10th biennial community development research conference, dedicated as always to issues of significance to people and communities around the country. The conference is cosponsored by, and includes substantive contributions from, the community development offices of all 12 Federal Reserve Banks as well as the Board of Governors. That united effort and level of commitment reflects how consequential we consider these issues to be. This conference is intended to present and highlight rigorous research that I am confident will inform how you think about your own work, whether from the perspective of policymaking, community development practice, or research.

Our last conference, two years ago, explored various aspects of economic mobility, largely among adults. This year, we gather to discuss "The Economic Futures of Kids and Communities," and, in part, I see this topic as an extension of that earlier conversation about mobility.

Today and tomorrow, we focus on research about the foundation or building blocks for economic success that are laid even before young people enter the workforce and assume responsibility for their own finances.

We will hear from leading experts on a range of issues related to how children, youths, and young adults are shaped in ways that may ultimately affect their ability later to productively contribute to the economy and manage their finances. We can learn from what the data and analysis tell us, and our hope is that making use of this information will lead to more effective programs and policies and thus better outcomes.

Considerable evidence shows that growing up poor makes it harder to succeed as an adult, and new research by the Fed likewise shows the strong connection between the typical experiences of poverty in childhood and economic challenges later as an adult. The data come from the Board's latest Survey of Household Economics and Decisionmaking (SHED), which will be published later this spring.[1] In the most recent survey, we asked some of the younger respondents—aged 25 to 39—to think about their childhoods. We asked those young adults whether, during their childhoods, they found themselves worrying about having enough food to eat, having a stable caregiver, or about their personal safety. About 10 percent said they regularly worried about one or more of these concerns, and an additional 19 percent said they sometimes worried about them.

We were then able to compare responses about their experiences in childhood to what these young adults told us about their current circumstances. Some pretty clear patterns emerged. Of those young adults who regularly had one or more of these childhood concerns growing up, more than one-half say that they are currently facing challenges in getting by financially. This fraction compares to just over one-fourth of those who said they never, or only rarely, worried about these concerns as children that now experience this level of financial challenge. Young adults who regularly or sometimes worried when they were children about their care, safety, or having enough to eat are also less likely to be employed, less likely to have consistent income month-to-month, and less likely to be able to pay all of their current monthly bills in full, compared with those who never or rarely worried about these concerns as children.[2]

Broadly speaking, children who grow up in insecure circumstances, those often experienced in poverty, seem disproportionately likely to experience financial insecurity as adults. This conference is about understanding what kinds of environments and resources can best help children meet with economic success after they reach adulthood. There has been a lot of discussion in the aftermath of the Great Recession about how to best connect people with steady jobs. But research presented over the next two days makes a compelling case that there is a need to also think longer term about how to prepare people for success in the labor market. In fact, this research underscores the value of starting young to develop basic work habits and skills, like literacy, numeracy, and interpersonal and organizational skills. These habits and skills help prepare people for work, help them enter the labor market sooner, meet with more success over time, and be in a position to develop the more specialized skills and obtain the academic credentials that are strongly correlated with higher and steadier earnings. Indeed, a growing body of economic and education literature has focused on the relative efficiency of addressing workforce development challenges through investments in early childhood development and education compared with interventions later in life.

I believe that data, evidence, and research can help policymakers and practitioners think more clearly about the implications for improving economic and life outcomes for everyone. To this end, the speakers at this conference will focus on three broad issues. I would like to briefly mention each, highlighting some of the questions that I believe can be informed by the research that will be presented here.

First, this morning's panel will address early childhood development and education. In recent years, medicine and social science has revealed more than we ever have known before about which factors and experiences in childhood can make a difference later in life. However, many questions demand further attention. A fundamental one is how positive developmental outcomes can be promoted among those who were not born into families with socioeconomic advantages. While we do know there are advantages to good quality early childhood education, we should strive to better understand what kind of returns on investment this education provides and how to maximize these returns. The answers to these questions may influence thinking about how programs and interventions meant to assist kids and their families should be structured for maximum effectiveness to help put kids on the road to economic success.

Second, researchers have explored the effects of neighborhoods and community conditions on the development of young people. Some presenters at this conference will share their understanding of how physical surroundings influence personal development. For instance, how do the form and quality of community institutions such as schools, community centers, and libraries play a role? What other kinds of community characteristics—such as public safety, transportation, and environmental quality—might help or hinder general education and financial skill development? A particularly important question is how kids' home environments affect them in ways that matter for their future economic success. It is also critically important to ask, what kinds of interventions have proven track records, and are these programs scalable?

Third, and finally, other presenters will explore issues around skill development of youths and young adults, workforce outcomes, and the implications for the broader economy. They will ask how we understand which formative experiences most affect the ability of young people to successfully move to the next chapter in their lives, whether that means college, a job, or other paths such as self-employment. What role does a range of programs—starting with early childhood education all the way through youth vocational or apprenticeship training—play in affecting job readiness? How effective are different approaches, and what are the returns on investment? We should also pay attention to how well young people form the sorts of "soft skills"—things like teamwork, communication, and the ability to handle conflict—that are so valued by employers. And, for young people whose paths become difficult, such as those who get caught up in the juvenile justice system, what effect do such experiences have on their futures as workers and consumers, and what are the most promising approaches to foster a course correction?

I hope that the data and other evidence presented today and tomorrow are of use to you in your work. Community development professionals attending this conference may consider how the design and implementation of their programs may be improved. Policymakers may look more closely at how kids are affected—purposefully or unintentionally—by public policies. And researchers may encounter ideas that spark new work that can shed further light on these important topics.

I think it is important that we better understand these issues, and I applaud you for taking the time to be here to share your knowledge and to learn. Our young people are the future, and we all want them to have the support they need for successful and fulfilling lives. As a central banker, I recognize the benefits to the broader economy when more people are better prepared for work and for managing their finances. In short, ensuring that all of our kids have "strong foundations" will help build a similarly strong foundation for the U.S. economy.

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[1] Board of Governors of the Federal Reserve System (forthcoming), *2016 Survey of Household Economics and Decisionmaking* (Washington: Board of Governors). Past SHED surveys are available on the Board's website at www.federalreserve.gov/communitydev/shed.htm, which is also where the 2016 survey will be posted when completed.

[2] See note 1.