

NOTES

CHILD & YOUTH DEVELOPMENT



Investing in your country's children and youth today: Good policy, smart economics

With many competing demands for scarce funds, countries often do not fully recognize how critical young people are to their national economies, societies, and democracies – both today and in the future – and consequently dedicate too few resources to harness their productive capacity. Policymakers should treat expenditure on children and youth as a public *investment* that generates returns to society through higher economic growth, reduced social costs, and increased quality of life for all. Given the cumulative nature of human development, underinvestments in children and youth are difficult to reverse later in life, and the price for society is high. It is more effective to invest early in life than to repair later, when badly equipped adults turn out to be unskilled, unemployed, or unhealthy. Therefore, allocating sufficient public resources to child and youth development, even in times of economic stress and budgetary constraints, is a *sine qua non* for a country's development and competitiveness.

The economic case for investing in children and youth

This note argues that investing in children and youth (C&Y) is smart economics. Countries that produce a skilled, healthy, and productive workforce are better positioned in the global economy to achieve economic prosperity, political stability, and social well-being. Since capacities built during childhood and the youth period largely determine adult outcomes, effective investments in young people provide important returns not only to the individual and the community, but to society as a whole. In other words, child and youth investments are a crucial ingredient for an effective development strategy.

“Either we do nothing – and risk alienating [youth] from the mainstream and instilling in them a legacy of distrust and hopelessness – or we invest in the biggest source of human potential that the world has ever had, and reap the benefits of that investment through greater growth and social well-being for generations to come.”

Lin/Cunningham (2010), in: The Financial Times¹

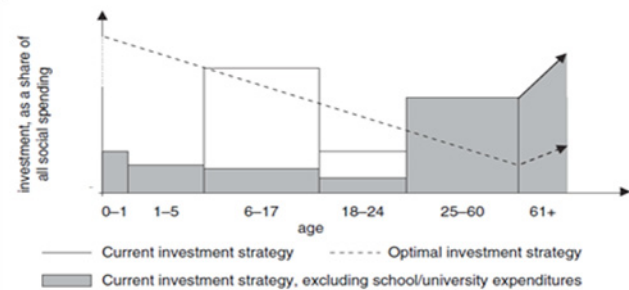
Human and social capital investments are the foundation for economic development and social wellbeing. The importance of human and social capital for economic and social outcomes is widely accepted and a necessary complement to other factors of production.² Education and job experience, as well as social networks, increase a person's or group's productive capacity, income, and overall welfare. Policies enhancing these human capabilities and networks, in turn, translate into higher productivity for the individual and society at large.

The accumulation of human and social capital must start at a young age. A large body of literature documents the importance of the early years in determining adult cognition, motivation, and health.³ In fact, early childhood and adolescence are the periods when the brain is in rapid development, learning and experimentation are at their peaks, and life-long patterns of behavior are established. Moreover, cognitive and non-cognitive skills and health capabilities at one stage of childhood enhance the effectiveness of investment at later stages.⁴

Investing in programs tailored to children and youth therefore advances socio-economic development, by establishing a strong foundation that promotes individual opportunity, social mobility, and good citizenship. This is especially relevant among vulnerable populations, whose living conditions put them at a particular disadvantage in accessing human and social capital and ultimately in making choices that are beneficial to themselves and society.

However, many countries underinvest in young people. Given the evidence, an optimal social expenditure scheme would invest generously in childhood and youth to reduce the need of later investment. Yet, as Figure 1 illustrates for the example of Brazil, actual public expenditure is often skewed towards the adult population (>25 years), mainly reflecting pensions and health care costs.⁵ Even though school and university expenditure can be significant, this spending hardly reaches vulnerable children and youth, who are not, or only to a lower extent, participating in the formal education system.

Figure 1: Optimal versus Actual Investments in Human Capital throughout the Life Cycle



Source: World Bank (2007), using fiscal accounts from Brazil, 2001-2004.

The cost of not investing

Failing to invest in children and youth triggers substantial economic, social, and political costs. Given the cumulative nature of human development, underinvestments in children and youth are difficult to reverse later in life, and the price for society is high. Negative outcomes resulting from misaligned investment strategies include truncated human and social capital accumulation (e.g. school drop-out, poor labor market entry) and negative conduct (e.g. substance abuse, crime and violence, risky sexual behaviors). Moreover, evidence shows that such behaviors are likely to be transferred to the next generation, creating a vicious cycle of social exclusion and negative behaviors.⁶ These outcomes and the resulting underutilization of human resources are costly for the individual and society, and may have two types of cost implications:

- **Direct expenditure:** The costs associated with medical treatment, special education programs, the criminal justice system, welfare spending, and other public subsidies to prevent or compensate for the effects of poor choices during adolescence and youth; and
- **Opportunity cost:** The potential benefits that could have been achieved in the absence or reduction of undesirable behaviors. For instance, teenage pregnancy, HIV/AIDS, early school drop-out, or unemployment can be associated with lower economic production and lower lifetime earnings.

In many countries the overall damage to society amounts to several percent of GDP per year. Although it is impossible to put a value on a human life or on the range of positive and negative externalities generated by young people, rough estimates show that preventable risky behaviors induce losses to society that reach into the billions of dollars. In Latin America and the Caribbean as a whole, total risky youth behavior reduces economic growth by up to 2 per cent annually.⁷ Findings from the United States, where the cost of child poverty is estimated at almost 4 percent of annual GDP, suggest these results are in a feasible range.⁸ Figure 2 illustrates cost estimates of negative outcomes in several countries.⁹ For example, in:

- Jordan, if youth unemployment rates were equal to adults, the country would generate additional output equivalent to 1.8 percent of current GDP;
- Jamaica, youth crime and violence incurs public and private costs equivalent to 3.2 percent of current GDP;
- Uganda, if girls with only a primary education finished secondary school, over their working lives they would contribute economic

benefits to their country equivalent to one-third of current year GDP.

Figure 2: The estimated cost of not investing in children & youth, as % of current GDP (for selected negative outcomes)*

	Jordan	Jamaica	Uganda ^a	India ^a
Unemployment	1.8	1.4	..	0.6 ^c
School Dropout ^b	1.5	3.0	34.0	0.3
Teen Pregnancy	3.1	1.3	19.2	3.1
HIV/AIDS	..	0.7
Crime & Violence	..	3.2
Migration	0.2

* Estimates are not comparable across countries given methodological differences. They also cannot be added up because of the concurrence of negative behaviors which would lead to double counting.

^a refers only to adolescent girls, ^b before the end of secondary school, ^c unemployment and inactivity.

Sources: Chabaan (2008), Chabaan (2009), Chabaan/Cunningham (forthcoming), Cunningham et al. (2008a).

These numbers are an underestimate since many costs remain unquantifiable, such as psychological distress, poorer health, less civic participation, or intergenerational effects. Moreover, given demographic trends of rising absolute numbers of children and youth in many countries, the total cost of risky behavior is likely to rise in the future. Since the opportunity costs greatly outweigh the direct expenditure, a large part of this cost remains invisible, which is one of the reasons why countries often fail to sufficiently invest in this age group.

“The later in life we attempt to repair early deficits, the costlier the remediation becomes.”

James Heckman, Nobel Laureate in Economic Sciences

The way forward: Smart investments today for future returns

Given the opportunity cost of underinvestment, policymakers have a responsibility to allocate sufficient public resources in child and youth development, with particular attention to vulnerable groups. Further, effective policy aimed at preventing and treating negative behaviors would help to eliminate many direct social expenditures, thus freeing up public resources to be spent on other initiatives. The following principles can guide public investment decisions:

Provide the foundations at an early age: Prevention, in terms of spending now to avoid the onset of expensive social and economic problems later, is widely considered to be the most economically efficient strategy.¹⁰ Abilities, preferences, and behavior are formed starting at birth, so programs to promote human capital formation and prevent risky behavior need to start at an early age. Focusing on early childhood development does not rule out later investment in adolescents and youth, but the need for second chances will be reduced if investments are made earlier in life. This means combining short- and long-run policies.

Target influencing factors beyond the young person: At each stage of the life cycle, people are a product of the social and economic influences that surround them. Thus, some of the most effective child and youth development is achieved by influencing those factors that help shape behaviors, such as families, communities, schools, the media, the legal system, and social norms.

Invest on grounds of empirical evidence: Investments in children and youth can be more cost-effective by focusing on programs with proven impact and high benefit-cost ratios. Reflecting the experience from both OECD and developing countries, Box 1 provides a list of programs that meet these criteria and can guide public investment decisions.¹¹ These include a range of interventions, such as early childhood development programs and parenting programs, comprehensive job training, or providing key risk prevention messages in school and through the media.

Box 1: Selected effective policies for child and youth development

General

- Early childhood development
- Parenting programs
- Financial incentives to promote good decision-making
- Life skills training
- Mentoring programs
- Birth certificates for the undocumented *

Education

- Secondary school completion
- Education equivalency programs

Employment

- Comprehensive job training that include a mix of technical skills, life skills, and internships
- Youth service programs or public sector internships
- Employment services
- Comprehensive entrepreneurship programs

Health

- Key risk prevention messages in schools and media
- Reproductive health services targeted at young people
- Higher-price and lower availability of tobacco and alcohol*
- Access to contraception*

Non-violence

- Safe neighborhood programs*
- Reduced availability and use of firearms*
- Rehabilitation and second-chance opportunities for young offenders*
- Anti-violence messages in all media*

* Non-children- or youth-specific policies with disproportionate effect on young people.

Source: Cunningham et al (2008), Cunningham/Wuermler/Sanchez-Puerta (forthcoming), Naudeau et al (forthcoming), PAHO/GTZ (2009), WHO (2006).

Many are low-cost relative to the benefits of investment. For example, implementing a conditional cash-transfer program like *Progresal/Oportunidades* in Mexico, which has proven to increase school attendance by 10 percent, would cost a country like Jamaica 0.3 percent per GDP, but generate an estimated 0.5 percent gain in annual GDP.¹² For such gains to materialize, however, the quality of programming is key. Moreover, due to a paucity of evaluations that measure program impact, it is necessary to prioritize learning, via new evaluations, to identify those interventions that can have an impact and in which settings these programs can be successful.¹³

Close the investment gap by reallocating resources and seeking appropriate additional funding: Scaling down popular but ineffective, or detrimental programs, such as “get tough” strategies, boot camps, abstinence-only programs, or building youth centers (rather than using existing spaces)¹⁴, will provide fiscal space to invest in effective and promising programs. Re-prioritizing the national investment strategy to emphasize the early years in the life-cycle of an individual would increase the size of the child and youth investment portfolio. In addition, governments can raise money through bonds or external funders when it is used for investments where “returns” exceed the cost of paying off the loan.

Conclusion

Complementing traditional arguments of demographics and human rights, this note provides an economic rationale to focus on the young generation. Countries that invest in their young people reap the benefits of that investment through greater growth and social well-being for generations to come. It is more effective to invest early in life than to repair later, when badly equipped adults turn out to be unskilled, unemployed, or unhealthy. Governments should therefore make children and youth part of the national investment strategies and provide sufficient resources for policies and programs that have proven effective in achieving their intended goals and that have the greatest impact per dollar spent.

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- 14 *Ibid.*

Further recommended reading:

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