Promise Nation

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Chapter 6
The Elusive Economic Development Goal

Perhaps the most important difference between traditional scholarships and Promise programs is the latter’s emphasis on community transformation. Almost every place-based scholarship program includes goals that encompass nonacademic, or community-level effects. The Pittsburgh Promise seeks to “deploy a well-prepared and energized workforce.” The El Dorado Promise counts a “vibrant economy” and “improved quality of life” among its expected achievements. The New Haven Promise refers to a desire to “enhance growth, stability, and economic development of the city of New Haven.” Economic development, a better quality of life, and a well-trained workforce are various expressions of the hoped-for community-level outcomes of place-based scholarship programs.

The empirical case for expecting these results from a place-based scholarship is hard to make. Instead, these expectations rest both on intuition about what makes a community more desirable and on scholarly findings about the relationship between educational levels and a community’s economic health. Before turning to this relationship, it bears considering why it is so difficult to directly demonstrate the economic development impact of Promise programs. There are at least three challenges.

The first is that the time frame over which economic development activities unfold can be quite long. While the announcement of a place-based scholarship program may provide an immediate boost to family finances, student effort, and school climate, the decisions by individuals and businesses that could contribute to an improving economy take longer to make. Even 10 years on, the direct economic impact of the Kalamazoo Promise has been modest, amounting to additional financial resources flowing to the school district because
of rising enrollment, new school construction, and the use of a large proportion of scholarship funding at local institutions. More profound economic impacts, such as rising levels of education in the workforce, population growth, or higher family incomes, may take decades to become evident. In this sense, it is too early to judge the economic development impact of even the earliest Promise programs, and even more premature to evaluate the impact of other, newer programs.

A second challenge relates to the difficulty of drawing conclusions about causality when it comes to nonschool effects. As one moves away from the direct beneficiaries of Promise scholarships—students, families, and schools—to the broader community, it becomes harder to identify the scholarship program as a causal factor in positive developments under way. Whether one is examining the housing market, business creation, downtown development, or population shifts, multiple causes are at work. The intervention of a place-based scholarship program, even one as generous and open ended as the Kalamazoo Promise, can easily be overshadowed by larger trends, such as changes in the housing market, economic conditions, or the culmination of decades of efforts by local economic development entities. While there may be little doubt in the minds of residents that a scholarship program is having a positive impact on the local economy, it is virtually impossible to document a clear causal relationship between a scholarship program and economic development outcomes.

A third and related challenge is what social scientists call the problem of the counterfactual. There is no way to know how local economic development might have evolved in the absence of a place-based scholarship program. In Kalamazoo, one can surmise that the local economy would have continued on much the same path, with weakness in the housing market, downtown development efforts struggling to maintain momentum, and the urban core continuing to lose residents. But it is difficult to know how pronounced these trends might have been and whether other factors could have come along to reverse them. In the absence of this counterfactual and given the other
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methodological constraints mentioned above, the best that researchers can do is draw reasonable conclusions from available data while sounding a cautionary note that although place-based scholarship programs can contribute to economic development, they are not a quick fix for communities in decline.

Setting these challenges aside, what is the case for investing in education as a path to economic development? Two strands of academic literature offer some answers to this question. The first concerns the linkages among educational levels, productivity, and economic growth, while the second addresses the role of a strong central city in regional vitality.

EDUCATION AND ECONOMIC GROWTH

Extensive research correlates higher education and skill levels with greater productivity, and greater productivity with faster rates of economic growth. Not surprisingly, as an individual increases his or her human capital—defined as the skills that people are endowed with or acquire through investment in training and education—the more productive he or she will be as a worker. This is what underpins the wider range of job choice, higher earnings potential, and lower unemployment rates for skilled or educated workers. Research also shows that the benefits of more education accrue not only to the individual but also to the community in which he or she lives. Businesses maximize productivity in part by gaining access to a well-trained and productive workforce; as a result, cities and regions rich in workers with high human capital are among the most attractive places for businesses to locate.

In exploring the connection between human capital and regional growth, economists Edward L. Glaeser of Harvard University and Albert Saiz of MIT find that, apart from climate and immigration patterns, “skill composition may be the most powerful predictor of urban growth. This is both a boon to the skilled cities that have done
spectacularly over the past two decades and a curse to the cities with less skilled workers that have suffered an almost unstoppable urban decline” (Glaeser and Saiz 2003, p. 42). Glaeser and Saiz argue that human capital matters most in potentially declining places. Skills are especially valuable in these settings because they help cities adapt and change in response to negative economic shocks. This finding has clear implications for urban policy: “City growth can be promoted with strategies that increase the level of local human capital” (p. 43), including the provision of quality public schools. A high-quality educational system plays two roles, attracting educated workers to a community while producing more of them through graduation and access to higher education.

Promise programs offer a good example of this dual dynamic. The availability of scholarships creates an incentive for workers and businesses who value education to move to or remain within the community. At the same time, such programs increase incentives for local school districts to educate and graduate students who are prepared to pursue some kind of postsecondary education. Over time, these two paths should converge to yield a more skilled local workforce.

Elaborating on the education-economy connection, Glaeser and Berry (2006) have shown that regions with skilled workforces (“smart regions”) experience higher rates of population and income growth than those without these assets. Their research finds that regions where more than 25 percent of the population had college degrees in 1980 saw their population surge by 45 percent on average over the subsequent 20 years, while low-skilled metropolitan areas (those where fewer than 10 percent of adults had college degrees in 1980) grew on average by just 13 percent. In addition, even unskilled workers located in the smart cities earned significantly more than their counterparts in metropolitan areas with lower levels of educational attainment (of course, the cost of living is also usually higher in these areas). Human capital investment strategies are increasingly important in part because the gap in educational attainment between skilled and less-skilled areas has accelerated. One possible reason is that
entrepreneurs in the past tended to hire large numbers of unskilled workers, whereas today’s most successful businesses rely on highly educated workers. In a virtuous circle in which smart places are getting smarter, regions with an initial advantage in human capital are better able to attract employers who provide jobs for workers with high levels of skills and education.

Why might a local skills-based economic development strategy be more important today, compared to the past? As has been noted by many, skills are more crucial to the U.S. economy and competitiveness today because of technological change and growing global competition. Furthermore, businesses are more footloose today than in the past and are less tied in location decisions to natural resources or markets. Although it might seem strange, one of the least mobile resources today is the local labor force, making it more of a strategic factor for communities seeking an economic comparative advantage. Finally, with increased income inequality in the United States, it is more important than ever to identify economic development strategies that can share the benefits of development more broadly with the local population, which an emphasis on skills of local residents can accomplish.

Place-based scholarship programs make it possible for a large proportion of the community’s youth to obtain new skills and increase the likelihood of educated workers being attracted to a community. As a result, the communities that are home to such programs can expect higher rates of income growth for all residents.

STRENGTHENING THE URBAN CORE

The education-productivity-income link described above generally applies throughout a metropolitan region; however, the Kalama-zoo Promise and most programs like it are targeted toward high-poverty school districts that serve a region’s urban core. Why does
it make economic sense to invest in urban schools? Beyond concerns about equality of opportunity, this choice may reflect a growing understanding that a region is only as strong as its core. “[R]egional economies are integrated wholes, with different parts of the metropolitan area specializing in different economic functions,” write Dreier, Mollenkopf, and Swanstrom (2001, p. 25). “[O]lder central cities continue to provide large pools of private assets, accumulated knowledge, sophisticated skills, cultural resources, and social networks.”

Glaeser, in his book *Triumph of the City* (2011), makes another case for the value of having a strong urban center, showing how cities attract talent, make possible the face-to-face interaction that spurs innovation, and create avenues for social and economic mobility.

While a few cities have bucked the trend, most of the nation’s urban areas have lost population, wealth, and influence since the 1970s. This is especially true for those older cities located in the Northeast and upper Midwest that had been at the heart of the nation’s manufacturing economy for much of the twentieth century. In an account of one of the more extreme examples of these trends, historian and sociologist Thomas J. Sugrue identifies three forces that accounted for the urban crisis in Detroit (and, by extension, other metropolitan areas): the flight of jobs, especially the unionized manufacturing jobs that characterized the post–World War II urban economy, the persistence of workplace discrimination, and racial segregation in housing that led to an uneven distribution of power and resources in metropolitan areas (Sugrue 1996). We could add to this list poor civic leadership, institutional sclerosis, and a decline in federal support for programs that aid cities.

Such deep structural trends may be impossible to reverse, but a long-term human capital investment strategy, such as that offered by Promise programs, is one path for the revitalization of these urban areas. Bruce Katz, codirector of the Metropolitan Policy Program of the Brookings Institution, has written extensively about the advantages of a dense and vibrant urban core, and he and his colleagues have proposed a set of federal urban policy initiatives to support an
uneven, but potentially important, resurgence of population under way in some cities. “The key to growing an urban middle class is simple: education. With residential choice dependent on school quality, cities need to ensure that their schools can attract and retain families with broader options” (Katz 2006, p. 15).

What about the poor? Many scholars, Sugrue among them, have noted that urban revitalization often fails to benefit the low-income individuals who live in the central city: “There has been very little ‘trickle down’ from downtown revitalization and neighborhood gentrification to the long-term poor, the urban working class, and minorities. An influx of coffee shops, bistros, art galleries, and upscale boutiques have made parts of many cities increasingly appealing for the privileged, but they have not, in any significant way, altered the everyday misery and impoverishment that characterize many urban neighborhoods” (Sugrue 1996, p. xxv). Education, especially education for the children of the urban working class and poor, might resolve this tension, bringing benefits to those who need them most.

Economic consultant Jeff Thredgold, writing shortly after the Kalamazoo Promise was announced, recognized the potential importance of a human capital–centered strategy for a declining urban community:

Communities facing hard times have traditionally focused on such things as new public buildings, business parks, and the like as a means of enticing new employers and new residents to a community. Temporary tax breaks and incentives have also been tried frequently. Success has been limited. The Promise is different. The enticement of new residents to the community to take advantage of funding of their children’s college educations is a strong one. Given tight labor markets across the nation, new companies are also likely to consider Kalamazoo as a place to do business as they see a rising population. The lure of more and more college graduates in the local labor force in coming years is also a powerful incentive to locate a business in Kalamazoo. (Thredgold 2007, p. 2)
By situating education at the center of the community’s economic development strategy, Promise programs emphasize the importance of human capital to a city’s future and provide incentives for its creation. Different types of Promise programs accomplish this in different ways—restrictive scholarships focused on the local community college may have a more direct contribution to workforce development, while expansive programs with four-year options will be more effective in attracting middle-class families into a community.

ECONOMIC DEVELOPMENT IMPACT

Is there any evidence that Promise programs are bringing measurable economic benefits to the communities in which they are located? In this section, I review the main economic effects of the Kalamazoo Promise on the local school district, students and families, and the city and region, while referencing research findings from other Promise communities.

In most Promise communities, the school district is one of the earliest and most visible beneficiaries of a place-based scholarship program. This has certainly been the case in Kalamazoo, where enrollment in the KPS district rose by 24 percent in the nine years following the introduction of the Promise. The enrollment increase marked a reversal of several decades of decline (see Figure 6.1) and has brought the district many benefits, including additional dollars (since state funding for schools is based on the number of students they enroll), voter support for large bond issues that have made possible the construction of new schools (the first new buildings in the district in almost 40 years) and the renovation of other facilities, and improved public perceptions of the school district (Miller-Adams and Fiore 2013).

In a series of papers, my colleagues at the Upjohn Institute have examined the nature of this enrollment increase. In their 2010 analysis, Tim Bartik, Randy Eberts, and Wei-Jang Huang find that increased
school district enrollment following the introduction of the Promise was due both to increased student entry into the district and a marked decline in exit rates. While the initial post-Promise enrollment boost was about equally due to an increase in entrants and a decline in exit rates, the subsequent enrollment increase is almost entirely due to a reduction in exit rates. This suggests that the Promise has served to attach families to the district for a longer period, which was clearly one of the donors’ goals, given the sliding scale of benefits.

Increased enrollment has had important effects on school finances and local economic development. Bartik, Eberts, and Huang (2010) calculate that without the Promise, KPS enrollments would have declined by almost 500 students between 2005 and 2009. Instead of the projected 9,701 students the district would have enrolled without the Promise, by fall 2009, the student count was 12,106, or a difference of about 25 percent. (Enrollment has continued to increase since 2009, although at a slower pace than the initial boost.) These additional students represented an $18.7 million state funding boost to the KPS budget in 2009–2010. And because the marginal cost of

Figure 6.1  Kalamazoo Public Schools’ Long-Term Enrollment Trend

SOURCE: KPS data.
serving a new student is below the value of the additional state funding received per pupil, the authors calculate that the district had an additional $6 million to spend on new services for students.

The authors also find that the Promise stabilized the demographic balance in the district, following decades of white flight. Enrollment increases were seen in the white, black, and Hispanic populations, roughly in proportion to each group’s initial enrollment. Table 6.1 shows the percentage of different racial and ethnic groups pre- and post-Promise. The 2005 and 2009 data are comparable, but by 2014, KPS had added a multiracial category that explains some of the decline in African American enrollments. Notably, in contrast to some expectations, the Promise has not served to draw large numbers of middle-class students; in fact, the percentage of students qualifying for free and reduced meals has actually increased (although this is likely due in part to the tough economic climate of the past decade).

Stabilization of the racial, ethnic, and socioeconomic composition of the district is important for several reasons. First, it may be a valuable social goal in and of itself (and there is extensive research supporting the benefits of socioeconomic school integration for the learning of all students; see, for example, Kahlenberg [2012]). Second, a racially and economically integrated school district may be better able to maintain political (and financial) support from a diverse community and is more likely to be attractive to potential migrants to Kalamazoo. Thus, the stabilization of school demographics in Kalamazoo (which becomes even more apparent when one compares it to neighboring urban school districts) may have important implications for the community’s future economic vitality.

In a subsequent paper, Hershbein (2013) takes a second look at the enrollment boost that followed the Kalamazoo Promise, analyzing the origins and destinations, socioeconomic composition, and individual school choices associated with the inflow of students. Results show that the majority of students who entered KPS the year after the Promise was announced came from outside district boundaries, and a quarter of new students came from out of state, suggesting the migra-
tion of new households into the area. Over half of new students came from other Michigan school districts, most from within Kalamazoo County. Conversely, the proportion of students that exited KPS who did so to attend neighboring districts fell from 80 percent to 50 percent in the years following the announcement of the Promise. The findings suggest considerable economic benefits not just for the school district but for the broader metropolitan area.

Few other Promise communities have seen enrollment increases comparable to what has unfolded in Kalamazoo, although there is some evidence of positive enrollment impacts in other locales. For example, Ash and Ritter (2014) report that prior to the announcement of the El Dorado Promise, the local school district had experienced a decline of nearly 14 percent in overall enrollment from 1990 through 2006. Since the year the Promise was announced, the decline has halted, and there have been small increases in enrollment. Moreover, the proportion of low-income students enrolled in the El Dorado schools has held steady while it has increased in comparable districts. They speculate that this may be due to increased economic vitality in El Dorado, greater desire by middle-class residents to remain in the community, or an influx of new middle-class families, concluding that it is some combination of these factors that has contributed to the relative economic stability of El Dorado.

Table 6.1 Kalamazoo Public Schools Demographic (population group as percentage of student body)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2009</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>African American</td>
<td>48.2</td>
<td>47.5</td>
<td>41.0</td>
</tr>
<tr>
<td>Hispanic</td>
<td>8.5</td>
<td>10.1</td>
<td>9.8</td>
</tr>
<tr>
<td>White</td>
<td>40.2</td>
<td>39.3</td>
<td>37.6</td>
</tr>
<tr>
<td>Multiraciala</td>
<td>n/a</td>
<td>n/a</td>
<td>9.3</td>
</tr>
<tr>
<td>Low-income (of all races)</td>
<td>62</td>
<td>69</td>
<td>69</td>
</tr>
</tbody>
</table>

*aThe multiracial category was not available in 2005 or 2009.
SOURCE: KPS data.
Increasing enrollment is also one of the goals of the Pittsburgh Promise, which was designed in part to “mitigate and reverse the population declines in the city of Pittsburgh and the enrollment declines in Pittsburgh public schools.” RAND’s 2011 study of the Pittsburgh Promise (Gonzalez et al. 2011) and more recent work by consultants from McKinsey & Company have found that, while the district continues to lose students, the rate of loss has slowed significantly.

One of the questions addressed by LeGower and Walsh (2014) in their analysis of the enrollment and housing effects of multiple Promise programs is whether merit-based programs might have different enrollment effects than universal programs. The authors find that public school enrollments increased in Promise communities relative to their surrounding areas following the announcement of a place-based scholarship program; however, they also find distributional effects of interest to those concerned with racial and economic diversity. Programs with the greatest choice of postsecondary institutions experienced the largest enrollment effects, and impacts were highest in the elementary grades (reflecting the sliding scale with greater benefits for long-term enrollment in place in most Promise programs). Schools associated with merit-based programs experienced increases in white enrollment and decreases in nonwhite enrollment. LeGower and Walsh’s housing price findings, addressed below, also suggest that universal and merit-based programs have different impacts on the surrounding community.

Beyond school districts, the other immediate beneficiaries of Promise scholarships are the students who make use of them. For families with children eligible for scholarships, among the likely impacts are freed-up college savings, increased disposable income, and a reduced student debt load. The evidence on this front is anecdotal rather than systematic, but stories from Kalamazoo suggest some impact on entrepreneurship as well, with people willing to invest in businesses knowing that their children’s college costs are covered.

One economic impact that is well documented is a strong pattern of scholarship use at Kalamazoo’s two local postsecondary institu-
tions. Since 2006, nearly two-thirds of Kalamazoo Promise recipients have chosen to attend either the two-year community college or four-year research university located in Kalamazoo. This means not only that the scholarship dollars awarded by the Kalamazoo Promise have gone to local institutions, with Western Michigan University receiving by far the highest payments, but also that student spending has remained within the local economy. With 58 postsecondary institutions to choose from, the dominance of the two local institutions in the college-going patterns of Promise scholars has served as an important economic benefit for the Kalamazoo community.

One of the expected effects of Promise programs is an increase in housing prices. LeGower and Walsh (2014) find that within three years of the announcement of a Promise program, residential properties within selected Promise communities experienced a 7–12 percent increase on average in housing prices relative to the region immediately surrounding the Promise area. They find that housing price effects are larger in neighborhoods with high-quality schools and in the upper half of the housing price distribution, suggesting higher valuation by high-income households. These findings led the authors to conclude that Promise scholarships mainly affect the behavior of households above the median income for which they present the greatest value. Their research also shows that merit-based versions of Promise programs disproportionately affected housing market decisions of white households.

Economic trends in El Dorado since the Promise was announced illustrate the challenges noted at the beginning of this chapter regarding causality. El Dorado has undoubtedly experienced positive economic developments that were immediately preceded by the implementation of the El Dorado Promise. Shortly after the announcement of the program, voters in El Dorado approved a $0.01 sales tax estimated to generate $32 million over eight years, to implement El Dorado Forward, the city’s strategic economic development plan. That same year, voters approved a 4.6 mill property tax millage to build a new high school. Excitement over the El Dorado Promise almost certainly
played a role in voter support for these two tax requests; however, it is impossible to disentangle the Promise as a cause from other factors that may have influenced the vote. In June 2015, voters by a 2-1 margin approved a renewal of the sales tax, with the Promise playing less of a role in the debate this time.

The El Dorado Promise has contributed to a higher national profile for the community; speakers at its annual signing days have included Presidents George W. Bush and Bill Clinton, and the program has been featured in People magazine, the in-flight magazine of American Airlines, and many other venues. El Dorado’s downtown was recognized in 2009 by the National Trust for Historic Preservation, and the city has earned multiple City of Distinctions awards. The town’s main street is almost fully occupied, and a $70 million arts district renovation is under way, representing one of the largest historic preservation efforts in Arkansas. While these are all positive developments that have coincided with the implementation of the El Dorado Promise, it is impossible to know whether it is the Promise, the strategic plan, or the synergy of the two that has made the difference.

Several other communities have structured their place-based scholarship programs in such a way as to create specific economic development effects. A leader in this area is Hammond, Indiana, which created the College Bound scholarship in 2006 specifically for the children of Hammond home owners. Since 2006, College Bound has awarded over 1,000 last-dollar scholarships of up to $10,500. The local board of realtors and city leaders believe that the program has helped stabilize the city’s population despite a forecasted decline, and that, at least until the 2008 financial crisis, College Bound was correlated with higher home sales and reduced time-on-market for single family homes. A recent survey of students who had graduated from the program shows that a sizable proportion had opted to return to Hammond. Program organizers also note that a community service requirement of 40 hours per student has contributed to the city’s quality of life, generating 15,800 hours of community service in 2013 alone (College Bound 2013; Times of Northwest Indiana 2014).
Stakeholders in La Crosse, Wisconsin, who spent several years evaluating program design options for its Promise program, have opted for a two-part strategy: 1) the creation of Future Centers in the high schools to promote college-going and assist students in accessing scholarships, and 2) a place-based scholarship (not yet operating) that will initially be limited to families who renovate or build homes within the city of La Crosse. The home-building strategy is explicitly targeted at the middle class—homes must have a value of at least $150,000 (above the city’s current median of $127,000). The program is designed to increase the density of the urban core, reduce suburban sprawl, and attract middle-class families to the city.

This discussion of economic development strategies highlights an important tension for Promise programs: whether the primary goal should be to support and broaden college access for disadvantaged groups or whether the scholarships should be designed as an incentive to attract more affluent families into a community. Kalamazoo’s universal, generous, flexible model has a good chance of accomplishing both goals, while La Crosse is using its Future Centers to serve existing students and its scholarship to attract new middle-class residents.

A second economic development issue worth flagging is the question of whether the school district served by the Promise program is expanding by retaining families and drawing new families from outside the area, or whether it is simply redistributing the existing student population from neighboring school districts, thus having little impact on the broader economy. Research into the enrollment effects of the Kalamazoo Promise suggests a mixed record—many of the new entrants into the district did indeed come from a neighboring school district, almost certainly exacerbating that district’s struggle with declining enrollment. Other surrounding districts have held their own, and there is evidence that much of the growth in KPS enrollment has been accomplished through declining exit rates and the attraction of some new students from out of area. This is an economically healthy way to grow a district, organically and from within, through the creation of long-term attachment of families to a single
district (and city) thanks to the incentive provided by a place-based scholarship.

In the next chapter I address whether this model is sustainable and identify some of the most important lessons of the Promise movement’s first decade.

Notes

4. See Note 1.