Coming Out as a Human Capitalist:
Community Development at the Nexus of People and Place

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If poverty is a disease that infects an entire community in the form of unemployment and violence, failing schools and broken homes, then we can't just treat those symptoms in isolation. We have to heal that entire community. And we have to focus on what actually works.

President Barack Obama, "Changing the Odds for Urban America," July 18, 2008

Executive Summary

Recent research is making the case that the communities we live in can help or harm us at every level–physically, socially, emotionally. These effects can stay with us for the rest of our lives. There is a revolution in knowledge afoot that demonstrates convincingly that investing in people, especially in children, is every bit as important as investing in markets and buildings. It is important for the community development field to take this on board and, it is potentially transformative for our strategies and programs.

Knowledge emerging from multiple fields–housing, early care, education, health care and medicine–all contribute to a transformation in our understanding of poverty: what causes it and how to fight it. This evolving understanding of the physiological damage caused by poverty, of the connection between community and health, and of how early investment can reverse this damage is so new that it is rarely synthesized. Yet, taken as a whole, we see a new picture for community development. Community development in the United States arose from the War on Poverty in the 1960s. But 40 years of trial and error have taught us a great deal about what works and what does not. We must adapt by developing a more integrated vision of people and place. We must understand that our vision cannot be community development alone, but rather community and human development together. Particularly important are strategies that focus on young children, bringing support before too much harm is done.

This new vision raises the stakes for our work. A well functioning neighborhood is a place where investments are made in families and children, where they find the support they need to build the skills that secure a better future. As community developers, we must take the lessons of the current knowledge revolution to heart and apply them to our practice. Poised at the intersection of people and place, we are uniquely positioned to play an important role in bringing new strategies to bear, bringing hope to the families and communities where we work. This article is an effort to summarize the new information from the past 15 years and how it informs our work in community development.

I. Introduction

"Poverty in early childhood poisons the brain." This was the startling message heard by scientists, gathered for the American Association of the Advancement of Science conference in February 2008. Stunning new research suggested that children growing up in poor families experienced levels of stress so high that their brain development was actually impaired.[1] A year later, Cornell University quantified the impact of this: the stress caused by persistent poverty resulted in a 10 percent reduction in working memory. In effect, children in persistent poverty live more stressed lives, affecting their ability to learn. They enter school with a 10 percent penalty compared to other children.[2] Without help, the gap between them and other children widens and limits their life chances. Moreover, the Cornell study found that "only the duration of poverty during early childhood predicted subsequent working memory in young adulthood."[3] Dr. Gary Evans, author of the Cornell study, said:

> We know low-socioeconomic-status families are under a lot of stress–all kinds of stress.…You may have housing problems. You may have more conflict in the family.…You'll probably end up moving more often. There's a lot more demands on low-income families. We know that produces stress in families, including on the children.[4]

The 2009 results built on an earlier Cornell report showing that kids with persistent exposure to psychological risks (family turmoil, poverty) and physical risks (over-crowding, substandard housing) experienced higher levels of stress.[5] These findings are just the latest in a growing body of evidence that is shedding new light on how central child development, human capital development, and the environment are to the problem of poverty.

There are two distinct stories being told – one is about challenges and difficulties, and the second is about hope. The first story outlines the challenges we face in improving the lives of people and the communities where they live. We see with poignant clarity the corrosive effects of poverty, especially on young children. In the early years, children can be so harmed by poverty that they are ill-prepared to learn, to grow, and to thrive.

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1 Clive Cookson, "Poverty Mars Formation of Infant Brain," *Financial Times*, February 16, 2008.

2 Gary Evans and Michele Schamberg, "Childhood Poverty, Chronic Stress and Adult Working Memory," Proceedings of the National Academy of Sciences 106, no. 16 (2009): 6545-6549.

3 Ibid. p. 6548.

4 Rob Stein , "Research Links Poor Kids' Stress, Brain Impairment," *Washington Post*, April 6, 2009, A06.

5 Gary Evans, et al., "Cumulative Risk, Maternal Responsiveness and Allostatic Load among Young Adolescents," *Developmental Psychology* 43, no. 2 (2007): 341-351. Evans shows that young adolescents exposed to persistent psychological and physical trauma in the form of family turmoil, poverty, over-crowding, high noise levels, and poor housing experienced higher and cumulated stress levels, which result in higher wear and tear on the body. The impact of this could be mitigated by maternal responsiveness. If not, however, the stress loads built and were cumulative.

But, the second story gives us hope. A renaissance of knowledge is emerging that helps us know what works and how to organize our efforts to be most effective. The building evidence suggests that the starting point must be with children, and that providing a better environment of support for their development will pay off richly for them and for society. The earlier we intervene, the cheaper the interventions can be and the stronger the social returns. We also are learning that even in the teen years, children can make important strides in improving their skills, their educational attainment and their readiness to succeed in the broader economy.[6]

Over the past three decades, we have learned a great deal about what hurts and what helps.

What Hurts

- Stress and its role in harming brain development
- Inadequate nutrition and health support
- Unsafe, unstable homes and neighborhoods
- Lack of language support, and the preponderance of negative verbal cues

What Helps

- Human capital strategies – quality early care and education, good schools and parent support programs
- Safe, healthy communities with a strong infrastructure of services: schools, housing, transportation, health care, food access, and nutrition support
- Cost-benefit analysis showing return for social investment so we focus on what actually works

Because community development is the one field operating at the nexus of people and place, we have an important role to play, if we act on the insights emerging from this knowledge revolution. In this paper, we will discuss the interplay of various strategies within community development–housing, child care, education, health care, nutrition–and suggest that these strategies align well with the renaissance in understanding that is accumulating. We will summarize the important new information and key take-aways for community development, using the Low Income Investment Fund (LIIF) as a touchstone, particularly for its work in housing, child care and education. We also touch on the contributions of several

6 A number of studies have shown that the brain retains a certain amount of plasticity and has the ability to develop after childhood. David Kirp in *The Sandbox Investment: The Preschool Movement and Kids-First Politics* (Cambridge: Harvard University Press, 2007) writes: "Early learning does matter greatly, since it is the scaffolding for all the learning that follows, and so it's sensible to focus on strengthening that scaffolding. But the life of the brain neither begins at birth nor ends at age three. The brain is more dynamic than that." (111). See also, Jack Shonkoff and Deborah Phillips, *From Neurons to Neighborhoods: The Science of Early Childhood Development* (Washington, DC: National Research Council and Institute of Medicine, National Academy Press, 2000). They write: "People are not like rockets whose trajectory is established at the moment they are launched. Indeed, it is the lifelong capacity for change and reorganization that renders human beings capable of dramatic recovery from early harm and incapable of being inoculated against later adversity....The real question is not which matters more—early or later experience—but how later experience is influenced by early experience." (90).

other community capital organizations that are investing in human capital programs, including health and food access. By examining the evolution and success of these real world examples, we hope to create a pathway for the community development field that unlocks human potential while building community assets.

II. The Knowledge Revolution: Coming Out as a Human Capitalist

Over the past several decades, community developers have become experts in providing housing and community facilities in low-income communities. The new research tells us that while housing is a key in the fight against poverty, its role may be most powerful in promoting stability for children and families. But the research also makes abundantly clear that housing alone is not enough to lift families out of poverty. Other human capital strategies – child care, education and others–must be employed to truly make a difference in the life chances of children. This paper will explore three of these in depth – child care, housing, and education.

Recent research has shown us that poverty and stress play a "killer" role for young minds, contributing to a well-documented achievement gap that persists through adulthood. Consider the following recent findings:

- Greg Duncan and Jeanne Brooks-Gunn's analysis of the Infant Health and Development Program estimates a nine point IQ reduction for children younger than five exposed to chronic poverty.[7]
- Poor kids showed a 60 percent lower cognitive performance entering school, according to the Early Childhood Longitudinal Study,[8] and have shown in other studies to score lower on language proficiency and academic achievement measures.[9]
- Five times as many poor children as middle-income kids experience poor health through their lives, according to the National Household Survey,[10] and individual differences in adult health status are related to childhood poverty.[11]

7 Greg Duncan and Jeanne Brooks-Gunn, *Consequences of Growing Up Poor* (New York: Russell Sage Foundation, 1997), 12. This outcome is compared to children who had never lived below the poverty line, by age five; children who had lived below the poverty line some of the time showed a four point lower IQ compared to non-poor children. Cited also in Greg J. Duncan, et al., "Economic Deprivation and Early Childhood Development," Child Development 65, no. 2 (1994): 296-318, 306.

8 Valerie E. Lee and David T. Burkam, *Inequality at the Starting Gate* (Washington, DC: Economic Policy Institute, 2002), 2.

9 Bradley, R.H., and Corwyn, R.F. (2002). "Socioeconomic Status and Child Development." *Annual Review of Psychology* (53): 371-399.

10 Cited in Susan Neuman, *Changing the Odds for Children at Risk: Seven Essential Principles of Educational Programs that Break the Cycle of Poverty* (Westport, CT: Praeger Publishers, 2009), 18. See also Chen, E., Boyce, W.T., and Mathews, K.A. (2002) "Socioeconomic Differences in Children's Health: How and Why Do Theses Relationships Change with Age?" *Psyhological Bulletin*, 128: 298-329.

11 Rhakonen, O., Lahelma, E. and Huuhka, M. (1997). "Past or Present? Childhood Living Conditions and Current Socioeconomic Status as Determinants of Adult Health," *Social Science and Medicine* (44): 327-336. And Smith, G.D., Hart, C., Blane, D., Gillis, C., and Hawthorne, V. "Lifetime Socioeconomic Position and Mortality: Prospective Observational Study." *British Medical Journal* (314): 547-552.

The uneven playing field on which poor children must compete seems to start with handicaps around language and encouragement. Consider the following:

- Poor children have a deficit of more than 30 million words by the time they reach school, compared to middle income kids. Betty Hart and Todd Risley in *Meaningful Differences in the Everyday Experience of Young American Children* produced the remarkable result that the sheer number of words–not sophistication or complexity of words, but quantity–spoken to a child in the first three years of life predicted language skill much later, at ages nine and ten.[12]
- These researchers also confirmed that the verbal cues poor kids do receive are overwhelmingly negative–5 positive to 11 negative cues per hour for poor kids in one study, compared to 32 positive to 5 negative cues among middle class children. Hart and Risley estimate that poor children accumulate 125,000 more admonishments than encouragements by age four, compared to middle class children, who receive 560,000 more encouragements than admonishments.[13]

Hart and Risley also demonstrated that the differences in exposure to words predicted how well children would learn much later in life. They found that, the "Amount of parent talk accounted for all (emphasis added) the correlation between socioeconomic status (and/or race) and the verbal intellectual accomplishments…."[14] To their surprise, the negative effects of the 30 million word deficit turned out not only to linger, but to accurately predict child outcomes much later, even in third grade. "We were awestruck at how well our measures of accomplishments at 3 predicted measures of language skill at 9-10."[15]

Perhaps the most damaging of all, however, is the growing evidence that children exposed to poverty suffer from actual impairment of brain function. Children from low-income backgrounds perform well below their higher-income peers on tests of language, memory, intelligence and concentration–all indirect measures of neuro-cognitive development.[16] However, new research has for the first time demonstrated disparities in direct measures of neural activity in the brain. Using electroencephalography (EEG) to examine responses to visual stimuli, children from low-income families showed electrophysiological patterns similar to patients with known brain damage to their lateral prefrontal cortex. This is an area critical for higher-level brain processing (known as executive function) such as planning, troubleshooting, decision making, abstract thinking, learning of rules, inhib-

12 Betty Hart and Todd R. Risley, *Meaningful Differences in the Everyday Experience of Young American Children* (Baltimore, MD: Paul H. Brookes Publishing Co., Inc., 1995), 198. Neuman and Celano produced similar findings: 126 words spoken per minute to middle-income children, but only 67 words spoken to low-income children. Susan B. Neuman, *Changing the Odds for Children at Risk* (Westport, CT: Praeger Publishers, 2009), 36-37.

13 Ibid., 199.

14 Ibid., xx.

15 Ibid.,160.

16 Farah, M. J., Shera, D.M., Savage, J.H., Betancourt, L., Giannetta, J.M., Brodsky, N.L., et al. (2006). "Childhood Poverty: Specific Associations with Neurocognitive Development," *Brain Research* (1110): 166-174.

iting inappropriate actions (resisting temptation), and the filtering of sensory information (concentration)–all processes important for success in school and in the workplace.[17]

Susan Neuman, an Assistant Secretary for Education in the Bush administration summarized the emerging knowledge as follows: "Brain development is much more vulnerable to environmental influence than previously suspected. New scientific evidence attributes negative impact on brain function, in part, to early stress. Good nutrition and nurturance support optimal early brain development." Going further, Neuman touches on the influence of community on child development, pointing to "so many families cloistered in unsafe neighborhoods." "Bad neighborhoods are bad for children," she says.[18] These multiple factors combine to deeply influence child life outcomes.

Why is poverty so stressful and damaging to young children? The realities of poverty are hard to fully translate for a general audience, but the following common sense example brings it home: Housing costs consume 66 percent of a poor household's budget. That leaves less than $500 per month for everything else[19]–less than $20 a day to feed the children, pay for transportation, health care, books for the kids, clothing, and recreation. This is a budget of deprivation, where families are often forced to choose between the rent and food, between heating and eating. Conditions like this can produce high levels of stress, poor nutrition and poor health. They can be crushing, especially to young children.

Nearly 40 million Americans (12.5 percent) live below the poverty line. Of these, 13.3 million are children, and 5.1 million are under six years old.[20] Add to this living in neighborhoods with high levels of crime and violence, and the stress on families can ripple through children's lives for years. Is it any wonder that the Cornell University study cited above found a 10 percent reduction in learning capacity? Is it any wonder that by kindergarten, poor children already have such deep learning deficits that the gap between them and middle-income kids will persist and grow?

But as we learn, we are also honing in on what interventions make the biggest difference. For example, early care and education programs markedly reduce the gap caused by poor environment, generating social returns that are four or five times their cost. Indeed, one extensive cost-benefit analysis of a high-quality early care program documented as much as

17 Mark M. Kishiyama, W. Thomas Boyce, Amey M. Jimenez, Lee M. Perry, and Robert T. Knight, "Socioeconmic Disparities Affect Prefrontal Function in Children." 2008. *Journal of Cognitive Neuroscience* (21), 6: 1106-1115.

18 Susan Neuman, "Changing the Odds for Children at Risk: Seven Essential Principles of Educational Programs that Break the Cycle of Poverty," (Westport, CT: Praeger Publishers, 2009), 127.

19 Harvard University Joint Center for Housing Studies tabulations of data from the US Census, 2007 American Community Survey (provided at author's request). The "State of the Nation's Housing 2009" published by the Joint Center estimates that low-expenditure families with high housing cost burdens have $485 per month after housing costs for all other expenditures, 26.

20 John Cook and Karen Jeng, "Child Food Insecurity: The Impact on our Nation." C-SNAP, 6.

17-to-1 returns for each dollar invested.[21]

In *Changing the Odds for Children at Risk* (2009), Susan Neuman assembles a compendium of such programs. She details an array of community-based programs–early care centers, parenting support programs, and others–that are generating 5-to-1 returns or higher in societal savings compared to their costs. These programs are known to work and are known to erase some of the worst deficits of poverty.

In a different corner of social science research, other findings have been emerging that create tantalizing suggestions about the possible connections between the newly recognized importance of stress on children and the built environment–including housing support and the quality of neighborhoods. In particular, the Welfare to Work (WtW) and Moving to Opportunity (MTO) demonstrations revealed a connection between reduced housing costs and more stable lives, between neighborhood quality and psychological distress, anxiety and health outcomes. For example, the Welfare to Work program demonstrated that affordable housing results in a 50 percent reduction in over-crowding, a risk factor implicated in the 2007 Cornell University study on child stress levels. WtW also recorded a 35 percent reduction in family moves and a 40 percent increase in food expenditures, linked to the availability of lower cost housing.

Even modest interventions can make measurable differences, if support is given early enough and is focused on the children most at risk. For example, early results from a University of Oregon study demonstrate that parents attending an eight week course in how to better handle their children's disruptive behavior reported lower family stress levels than the control group. Neural scans of their children showed improvements in the formation of neural pathways, as well.[22] Another study showed that children stunted by poor nutrition and poverty were able to catch up after two years of weekly play sessions with mothers at home, combined with a nutritional supplement.[23]

Results like these are coming forth in greater numbers, often as the results of multi-year longitudinal experiments are reported. As a consequence, there are increasingly strong suggestions that a more integrated approach focused on child and human development is needed to effectively tackle poverty. They lead to a vision centered on human development within a community environment that is safe, healthy, and served by strong institutions–schools, early care and education, libraries, food access, health and recreational services.

21 Barnett WS. "Cost Benefit Analysis." In Schweinhart LJ, Barnes HV, Weikart DP. Significant Benefits: the High/Scope Perry Preschool Study Through Age 27. Ypsilanti, MI: High/Scope Press, 1993: 143-173. See also, Schweinhart LJ, Berruta-Clement JR, Barnett WS, Epstein AS, Weikart DD (1985). "Effects of the Perry Preschool Program on Youths through Age 19: A summary." *Topics in Early Childhood Special Education Quarterly*, 5:26-35.

22 Cookson, op cit.

23 S.M. Grantham-McGregor, et al., "Nutritional Supplementation, Psychosocial Stimulation, and Mental Development of Stunted Children: The Jamaican Study," *Lancet* 338, no. 8758 (1991): 1-5.

This convergence of knowledge suggests three broad groupings of interventions that are most beneficial in addressing poverty:

- **Early care and education**, i.e. quality child care with structured play for brain stimulation and development, in a safe and non-chaotic setting,
- **Parent education**, to teach the importance of reading and talking to a child, particularly with positive disciplinary strategies,
- **Healthy, safe communities** that provide a stable environment of supporting institutions – affordable housing, early care centers, schools, libraries, health centers, food access.

In "Schools, Skills and Synapses," Nobel Prize-winning economist James Heckman noted: "A divide is opening up in American society. Those born into disadvantaged environments are receiving relatively less stimulation and resources to promote child development than those born into more advantaged families.…[A] major determinant of child disadvantage is the quality of the nurturing environment rather than just the financial resources available."[24]

Traditionally, child care programs have been seen as second sisters to investments in elementary education. But the information emerging in recent years suggests that investment in education works best along with earlier investment in child development. Study upon study confirms the rich reward we receive for investing in early care program – sometimes 10 percent and even as high as 20 percent for well-staffed, intensive programs.[25] James Heckman and colleagues summarized the costs and benefits of investing in early child development programs in "The Dollars and Cents of Investing Early"[26] and found:

- A 10-to-1 cost-benefit was shown for the Chicago Child Parent Centers (CPC), with a 22 percent internal rate of return.
- A 4-to-1 cost savings benefit was shown for the Carolina Abecedarian child care program of full-day early care, compared to a control group; this translated to a 7 percent return.
- A 17-to-1 benefit from the Perry Preschool Program with an 18 percent annual return on investment
- A 5-to-1 benefit from the Nurse Family Partnership, with a 23 percent return on investment.
- Neuman reports a 2-to-1 benefit for Bright Beginnings in Charlotte, N.C., with long-term benefits of $13.74 for every dollar invested, although the long-term benefits must still be confirmed with longer term studies.[27]

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24 Heckman, James J. "Schools, Skills and Synapses" National Bureau of Economic Research, Working Paper 14064, June 2008 http://www.nber.org/papers/w14064, 14, 16.

25 Neuman, op. cit., 44.

26 Heckman, James, Rob Grunewald and Arthur Reynolds, "The Dollars and Cents of Investing Early: Cost-Benefit Analysis in Early Care and Education," (2006), 13, available at www.zerotothree.org/reprints.

27 Neuman, op cit., 110.

The Abecedarian and Perry Pre-School programs (above) both show results where individuals scored higher on achievement tests, attained higher levels of education, required less special education, earned higher wages, were more likely to own a home and were less likely to go on welfare or be incarcerated than control groups. Children were followed until age 40 with the Perry Pre-School Program, and until age 21 with the Abecedarian program.

Heckman concludes that these programs produce benefits at least as good as returns from the stock market. He says, "An estimated rate of return (the return per dollar of cost) to the Perry Program is in excess of 10%. This high rate of return is higher than standard returns on stock market equity (7.2%) and suggests that society at large can benefit substantially from these kinds of interventions. These are underestimates of the rate of return because they ignore economic returns to health and mental health."[28]

III. Human Capital and the Built Environment: An Integrated Vision of Community Development

Traditionally, community development has centered on the "hard" skills of real estate development, finance, and capital leverage. The softer side of the equation – human services and support–has frequently been associated with dependency, rather than true, long-term advancement. Moreover, there is an interesting gender aspect within this, with human services often led by women, while the more "muscular" areas of market growth and real estate development attracted male leadership and more investment. The knowledge revolution challenges these subtle but powerful cultural biases, teaching us that soft skills and nurturing support may be fundamental to hard skills and durable development. Contrary to creating dependency, these services actually create the human scaffolding that allows other social development to take root and flourish.

Community development programs create affordable housing and finance school facilities at scale, mobilizing billions of dollars to revitalize low-income places. However, the renaissance of knowledge now suggests that without commensurate investment in the people-side of the equation, the benefits of community investments will be weaker and more short-lived. It is time for those of us in community development to more completely embrace the value and importance of human capital development and to integrate such strategies more proactively into our toolkit. We need to develop a vision that is more clearly centered on the growth of human potential, especially young human potential.

Investments in the physical infrastructure without investments in people run the risk of fleeting returns; the positive effects of investment dollars are often blunted by the root causes of poverty. Recognizing the vital importance of the human capital strategies, community developers can become a stronger voice in advocating that these kinds of resources be delivered to the communities we serve. We can prioritize our support for projects that include

28 Heckman, James J. "Schools, Skills and Synapses" National Bureau of Economic Research, Working Paper 14064, June 2008 http://www.nber.org/papers/w14064, 21.

human capital growth, and we can present opportunities for our public and philanthropic partners to help us apply the new lessons to build stronger communities.

This integrated vision was evident in a recent speech by Housing and Urban Development Secretary Shaun Donovan, when he recalled the origins of the urban development and housing movement:

> Riis, Jane Adams, Lillian Wald and others in the emerging settlement house movement recognized that substandard physical structures, as terrible as they were, were only part of the problem. They believed … that transformation required a focus on something far more ambitious: on physical health, on education, on access to economic opportunity. On meaningful outcomes that often resulted from the overall condition of the neighborhood – on which the built environment was a major influence to be sure.[29]

The insights of these early visionaries, like Riis and Adams, remain important to community developers today. Their original inspiration of an integrated approach to people and place is being confirmed today by emerging research, and points the way toward the future of community development.

The story of the Low Income Investment Fund (LIIF) mirrors the evolution in this thinking. Founded 25 years ago as the Low Income Housing Fund, LIIF started out to finance housing in communities red-lined by banks. Believing that capital flowing into poor places would create growth and opportunities for residents, LIIF quickly became a leader within the emerging community capital movement. LIIF specialized in finding capital solutions for neighborhood housing projects that combined an array of social services and quirky revenue streams, while simultaneously serving very low income people. However, by 1998, LIIF had begun to realize that providing housing alone was not enough to address poverty. LIIF saw that stable, affordable housing was part of a larger puzzle of improving the life chances of poor people. However, even in those early days, LIIF pioneered financing for human service projects: battered women's shelters, health clinics, community service centers.

In the late 1990s, the City of San Francisco turned to LIIF to leverage its Community Development Block Grant program to build new child care centers. San Francisco faced a deep shortage of child care facilities at a time when welfare reform was pushing parents into the workforce and extra demand-based subsidies were entering the system. Parents who wanted to work could not find places to put their children during the day, and the "vacancy rates" in child care centers serving poor communities were virtually zero. New centers needed to be created, and LIIF had the know-how to make it happen. LIIF's child care financing efforts started in San Francisco, but have since spread throughout the state of California and to New York City, as well, supporting over 125,000 spaces in safe, quality centers. With this experience under its belt, LIIF began actively to seek other ways its finan-

29 Shaun Donovan, "From Despair to Hope: Two HUD Secretaries on Urban Revitalization and Opportunity" National Press Club, Washington, DC, July 14, 2009.

cial expertise and experience with human service organizations could be used toward the larger goals of poverty alleviation and economic advancement.

LIIF's early efforts have evolved into three new programs that provide early stage, high risk capital for the facilities and real estate needs of nonprofit, community based developers across the U.S. in the following areas of need: (1) child care, (2) housing, and (3) education. The focus on these three areas has paid off in tangible results. In total, LIIF has made $750 million in investments in these three programs, supporting 54,000 affordable homes for families and kids, 43,000 school spaces, and 125,000 child care spaces in poor neighborhoods. LIIF estimates that these investments have yielded more than $15 billion in family and societal benefits.

LIIF's programs followed the vision of improving the skills and human assets for the lowest income people, while promoting investments to create healthy communities. LIIF believed that sustainable development was fundamentally rooted in creating human capital and that human development occurred best in the context of strong, healthy communities. The three strategies–child care, housing, and education–are described below.

Child Care

Why are early care programs so important? For two reasons: first, to allow parents to go to work and stay in work, knowing that their children are safe and well cared for while they are away; and, second, to mitigate the worst effects of stress and poverty on child brain development, by stimulating neural development and laying a foundation for future success in school. Good, quality early care helps children thrive and learn. It is a lynchpin to breaking the cycle of poverty. The knowledge revolution of the past few years has taught us that the first years in a child's life can make a significant difference. Stress robs a child of needed brain development. The lack of verbal exchange and parent engagement appear to do the same. In addition, we now know that most of the neural pathways that allow us to think are created early, between the fourth and seven month of gestation.[30] We've learned that neural pathways in young children flourish with verbal stimulation and parent engagement, but go on hold when under frequent or prolonged stress, i.e. threats to physical or psychological well-being.[31]

As important as this early stage is, only half of all low-income children are enrolled in quality care programs–programs that have a chance of providing the brain stimulation, positive reinforcement and quality care that boosts a child's life chances. Poor families' budgets

30 Cited in Neuman, *Changing the Odds for Children at Risk*, 3. Neuman cites Dr. Bernard Shaywitz et al, "Development of Left Occipito-Temporal Systems for Skilled Reading Following a Phonolgically Based Intervention in Children," *Biological Psychiatry,* 55 (2004).

31 Neuman (above), p. 5 cites the work of Jack Shonkoff in describing the impact of stress on brain development. She also cites (p. 8-9) the work of Patricia Kuhl at the University of Washington, comparing the learning of infant children interacting with adults in language sessions, versus children listening to DVDs. No learning whatsoever occurred with the children listening to DVDs, whereas those listening and interacting with adults progressed. "The message was clear: learning is enhanced in a social setting."

are stretched to the point of breaking, with housing consuming two thirds of household income. The average cost of child care runs an additional $10,000 per year – out of reach of the poor. They depend upon federally and locally subsidized early care programs, like Head Start or a number of the others featured above. The dearth of children receiving this essential, high return support is tragic and ultimately, damaging to the overall economic performance of the country.

There are two key barriers to closing the gap:

- **Insufficient operating support.** In 2009, $12 billion in total federal funding was available for child care. All needy children could be served with an additional annual investment of $17 billion.
- **Too few facilities.** Even when operating support is available, the supply side of the equation represented by the number of physical facilities, creates a bottleneck. In California, LIIF estimates that 60,000 additional children could be served without additional cost if adequate facilities were available to house them. Capital programs, in tandem with existing operating subsidies would close a measurable portion of the gap.

Community development has four important contributions to promote child care. First, our stature within national and state policy circles means that our voice could add a great deal to the debate about directing public resources. Second, our expertise in financing community facilities would add tremendous capacity to the child care sector. Third, our financial engineering expertise can optimize the use of public dollars, leveraging private capital and allow the combination of existing resources to add to the current supply. And fourth, we can help cut the red-tape of local planning rules, zoning requirements and jurisdictional issues to shorten the development process and save money in the creation of child care facilities. LIIF's Constructing Connections program does exactly this–cuts local red-tape by coordinating rules, building standards and competing oversight by multiple agencies. We estimate that these interventions have saved six months in the development cycle for each child care facility developed or renovated.

Preparing young children to learn means they will perform better in school. Better school performance leads to better jobs and a more productive workforce. All of these lead to a better, more competitive national economy. Quite literally, the nation's future is tied to its investment in children and in education. Yet there is a portion of the workforce that is not learning as well as it could, or contributing as much as it could to our collective prosperity. Child care is a lynchpin to ensure that disadvantaged children are better able to reach their potential.

Housing

While early care programs can advance a child's learning capacity and allow parents to enter the workforce, affordable housing is a platform for family stability. Affordable housing is a fundamental safety net which, if frayed, allows other investments to drain through. It is a platform for family stability.

When too much of a family budget is devoted to housing, there is little room left for investment in kids. Furthermore, stressful housing conditions can create stress that negatively impacts human development. Poor families sometimes have little choice but to live in unsafe neighborhoods, where the threat of violence erupts visibly at times, but is always simmering beneath the surface. For the past 20 years, affordable housing has been linked to health, emotional well-being, and the ability of families to get by in high cost environments. For example, the recent Welfare to Work (WtW) demonstration program showed that housing support created a:

- 50 percent reduction in over-crowding
- 35 percent reduction in family moves and
- 40 percent increase in food expenditures

These positive results were compared to a control group that lacked housing subsidies.[32] The results are based on a five year, random assignment experiment involving 8,731 families from six major cities. Welfare to Work tested the role of housing support and found that it "offered security in the face of job loss or other financial disaster: Recipients knew that the family would always have a roof over its head and this relieved a great deal of stress." They cited the voucher's role in reducing stress for themselves and their children:

> In some cases, the voucher enabled a parent to work less and spend more time with children; in others, worrying less about finding and keeping adequate housing enabled parents to focus better on their children's needs.[33]

The reduction in moves and over-crowding are particularly notable. Fewer family moves are believed to positively affect child educational attainment; over-crowding is suspected as detracting from a child's ability to study and learn. Interestingly, the lack of child care emerged in WtW follow up interviews as a key barrier to work. Finally, the WtW program also reported that the extra family income from lower housing costs "often went to providing for children's needs and wants and for basic household expenditures, including food."[34]

With respect to food and nutrition, Harvard University's "State of the Nation's Housing" report provides support to the positive WtW conclusions. In 2007, this report linked housing affordability and the subsequently freed up family income with higher food and health care expenditures – poor families with affordable housing spent 30 percent more on food and 70 percent more on health care than families with high cost burdens.[35]

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32 Wood, Michelle, Jennifer Turnham, and Gregory Mills. "Housing Affordability and Family Well-Being," *Housing Policy Debate*, Volume 19, Issue 2, 384, 390, 402. The Welfare to Work demonstration program was a random assignment, controlled experiment involving 8,371 families, observed over a five year period.

33 Ibid., 401,404.

34 Ibid., 401.

35 State of the Nation's Housing, (2007), 27, 29.

The role of place is illuminated even more through the Moving to Opportunity (MTO) program, which combined housing subsidies with relocation to low-poverty neighborhoods.[36] The MTO interim evaluation finds that affordable housing paired with low-poverty neighborhoods resulted in "a substantial reduction in psychological distress among adults" and, among children, "moderately large reduction in psychological distress" for girls, though worse outcomes for boys. The report also found "a substantial decrease in the incidence of depression among girls in the Section 8 group; and very large reductions in the incidence of generalized anxiety disorder among girls in both treatment groups." The interim U.S. Department of Housing and Urban Development (HUD) evaluation of the MTO program linked these improvements in mental health to improved safety in the neighborhoods. MTO also saw a significant decrease in obesity among adults. The interim evaluation for MTO reports: "Perhaps not surprisingly, these improvements in living environment led to significant gains in mental health among adults in the experimental group. The level of psychological distress was substantially reduced in this group." [37]

These results suggest that housing assistance is an important safety net for families fortunate enough to receive it. In addition, the MTO interim findings suggest that moving to low-poverty places may have positive outcomes, particularly on psychological distress among adults and girls, as well as the physical health of adults. The findings are not definitive and additional research would need to be done to draw firm conclusions. However, they suggest that reduced housing expenditures and better neighborhoods give families the economic and psychological freedom to invest more in their children's nutrition and health. The ethnographic reports from WtW participants suggest a tantalizing connection between housing support and the recent research about stress, poverty, and children's outcomes. Housing support appears to be a factor, likely an important factor, in greater family stability and therefore, to the future life chances of poor children.

Questions remain, however, about how important housing affordability is to future child outcomes, and how strong the neighborhood must be to produce the benefits seen in MTO–must families move to middle-income neighborhoods to see these results, or is simply moving to lower crime, higher safety communities good enough? The answer to these questions would lay the groundwork for cost-benefit analysis that can help us understand how much social investment is required in housing and place-based strategies to achieve social goals.

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36 In July 2009, the Pew Economic Mobility study released results underscoring the importance of place and community in shaping the life chances of children. The study found that for children whose family income is in the top three quintiles, spending childhood in a high-poverty neighborhood versus a low-poverty neighborhood (say, experiencing a poverty rate of 25 percent compared to a rate of 5 percent) raises the chances of downward mobility by 52 percent. Indeed, neighborhood poverty can explain one-quarter to one-third of the black-white gap in downward mobility. Neighborhood poverty alone accounts for a greater proportion of the black-white downward mobility gap than the effects of parental education, occupation, labor force participation and a range of other family characteristics.

37 "Moving to Opportunity: Interim Impacts Evaluation," U.S. Department of Housing and Urban Development, x and xvi of Executive Summary.

Education

> *Early investment must be followed up to be effective. Capabilities produced at one stage of the life cycle raise the productivity of investment at subsequent stages.*
>
> —*James J. Heckman "Schools, Skills, and Synapses" (2008)*

There is broad consensus that education is the key that unlocks a child's future. A high school graduate will earn $270,000 more over his/her lifetime than a high school dropout. College graduates earn nearly twice (177 percent) the amount earned by students who have received only a high school diploma.[38] And these benefits carry over into future generations – children from parents with higher levels of education do better than those without. Moreover, the benefits of education have been growing: in 1973, a male high school dropout's wage would have been $13.61 per hour, compared to $9 per hour now; those with advanced degrees earn 20 percent more than three decades ago.[39] Beyond this consensus, however, the situation becomes murkier.

As President Obama also said, "there's this sense that education is somehow a passive activity, and you tip your head over and pour education in somebody's ear. And that's not how it works." [40] Putting kids in schools by itself is not enough to reverse the corrosion of poverty. In fact, poor children entering schools struggle to catch up, and in most cases do not. By age 24, about three-fourths of all students from families in the top income quartile had earned bachelor's degrees, compared to only about 10 percent of students from the bottom income quartile.[41] But well-run, well-managed schools that demand active parental engagement can draw forth much higher achievement from students. The following examples give a sense of possibility.

- The graduation rate from Green Dot schools significantly outpaces those of local school districts–81 percent of Green Dot entering freshmen graduate from high school, compared to 47 percent from the Los Angeles Unified School District (LAUSD). More than 75 percent of graduating seniors have been admitted to four-year universities.[42]
- All schools within the Alliance for College Ready Schools system outscored the neighboring public school that their students would otherwise have attended by a range of 112 – 296 points on the Academic Performance Index (API). Four Alliance high schools have earned

38 Jennifer Cheeseman Day and Eric C. Newburger, "The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings" (Washington, DC: U.S. Census Bureau), July 2002, 10.

39 Data cited in Neumann, op cit., 11.

40 Barack Obama, quoted in the *New York Times*, "The Way We Live Now – 24/7 School Reform," by Paul Tough, September 7, 2008.

41 "Family Income and Educational Attainment, 1970 to 2007," Postsecondary Education Opportunity 197 (2008): 1-16, 8.

42 Green Dot Public Schools, "School Results." Available online at http://www.greendot.org/results.

2008 API scores that rank them among the top 12 high schools in the Los Angeles Unified School District.[43]

LIIF alone has invested $200 million in neighborhood schools like these. Several other CDFIs, notably The Reinvestment Fund, NCB Capital Impact, and the Local Initiatives Support Corporation have done the same, helping hundreds of thousands of low-income children have access to excellent school environments. Despite the political arguments that surround charter schools, the outcomes confirm that children can make huge strides when given the opportunity to do so and when investments are made in their futures. While the section above on early care and education demonstrates the importance of investing early in children's futures, the experience of these new school experiments suggest that progress is possible.[44]

IV. Demonstrating Social Impact

Community development finance will thrive to the extent that we can provide a convincing case that we leverage human potential and create a good return for the taxpayer's dollar. The cost benefit studies performed for the child care sector make a compelling case that these programs produce excellent return for the investment. The same needs to be done for other social strategies employed by community development practitioners. For example, there are striking connections between the role of affordable housing in reducing stress and anxiety, in increasing food security and in creating a platform for family stability. These ideas have yet to be fully explored, yet the potential cost-benefit payoff could be huge. Notably, the MacArthur Foundation is now funding research that hopes to address at least some of these questions.

However, as an industry, we could advance our work if we took the initiative and tried to show how we hit the impact bulls-eye. As practitioners, we are not researchers. Nevertheless, we can do our best to develop information that is useful. There are several practical things we can do: First, we can lend our voices to the call for supporting evidence-based impact analysis and we can embrace such evidence when it is made available. Second, as we have done with

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43 Alliance College-Ready Public Schools, "Four of the Top Twelve LAUSD High Schools are Alliance Charter Schools." Available online at http://www.laalliance.org/comparison.html (last visited September 14, 2009).

44 Elementary, middle and high school are crucial to creating college readiness. They create the training and skills necessary to succeed in higher education environments. They also create the atmosphere that teaches children they can and should aspire to college. They open the doors to future achievement. The importance of college cannot be overstated. Recent research has also demonstrated the significant returns to higher education, showing returns 12 percent or more, similar to those calculated by Heckman in his evaluation of early care and education programs:

- "If the value of a college education is expressed on the same basis as the return on a financial investment, the net return is on the order of 12 percent per year, over and above inflation. This compares favorably with annual returns on stocks that historically have averaged 7 percent."
- "Accounting for costs of education and the time value of money, discounted lifetime net benefits from a university degree including combined individual and societal benefits–exceed $600,000 per worker–a combined internal rate of return of about 16 percent."

Kent Hill, Dennis Hoffman, and Tom R. Rex, "The Value of Higher Education: Individual and Societal Benefits," p. 1-2. Arizona State University, Productivity and Prosperity Project, October 2005.

the CARS financial rating system, we can agree that impact analysis is at least as important as financial performance; we can hold our own feet to the fire in setting performance standards. Third, we can agree on estimation techniques that we develop and/or that rely on a growing literature of the costs and benefits of social programs, as has been done by Heckman and others. While not perfect, it is better than silence on this topic.

LIIF attempts to apply such impact-focused cost-benefit analyses to its housing, child care and education investments. By these (imperfect) measures, LIIF estimates that its investments have created $15 billion in family and societal benefits through its investment in community projects. This is an excellent return for $750 million in LIIF's own capital investments and $5 billion in additional capital investments attracted by LIIF's participation.

LIIF estimates impact in three primary ways:

Child care – Relying on the Heckman et al. research cited above, LIIF assumes a conservative 4-to-1 benefit for the investments made in child care. LIIF determines the one year operating cost of the center and multiplies it by $4 to achieve an estimated societal benefit. This substantially understates the true benefit, because most children stay in child care for at least three years, and LIIF's support is long term.

Housing – LIIF computes the difference between the affordable rents/price of the housing we finance and the market price, based on appraisals at the time of financing. We multiply this difference by the number of years affordability is certain, i.e. the term of the Low Income Housing Tax Credit (LIHTC) if an LIHTC property, or if not, by the term of LIIF's loan (generally two-to-three years). The result is the "income benefit" to the families in these residences, and thus the "impact" of the housing. This is not true impact analysis in the research sense. But, it is a useful way to consider the monetary benefit of affordable housing, which, as noted earlier in this paper, provides a stabilizing influence on families through fewer moves and reduced crowding.

Education – Relying on solid research, LIIF calculates the incremental high school graduation rate in the schools it finances, compared to the schools in the surrounding district. Based on this differential, LIIF multiplies the number of desks filled with students that would not otherwise have graduated from high school by $270,000, the lifetime earning difference for a high school degree. This understates the "impact" because desks are only counted once, rather than for the full life of the school and because no college benefit is assumed.

These ways of measuring impact are suggestive, not definitive. They create a picture of the power of leverage. The CDFI industry would benefit by discussing its impact–either cost-benefit analysis or internal rate of return (IRR) for the taxpayer/philanthropic dollar.

V. Putting the Pieces Together–A Paradigm Shift for Community Development

CDFIs are innovators–we invent new opportunities when we focus on challenges. The goal of this paper is to urge innovation in new directions–directions centered on human growth and development, within the context of healthy communities. This is a bulls-eye for our industry. But it requires us to renew our vision in keeping with the renaissance of knowledge emerging over the past decade. We must adapt by developing a more integrated vision of people and place – we must understand that our vision cannot be community development alone, but rather community and human development together. Particularly important are strategies that focus on young children, bringing support before too much harm is done.

If there are three points the reader should take away from this paper, they are:

- ***Human capital strategies*** – especially for young children – deserve a more prominent place within community development; place based strategies alone are not enough.
- ***Creating safe, healthy communities*** with a strong infrastructure of proven, high-quality human services should be the future organizing principle for community investment. This can include in-place strategies as well as mobility strategies.
- ***Cost-benefit analysis*** of our own work is essential to future success.

CDFIs use their intellectual capital – their smarts – to attract private capital into places and services that would not receive investments otherwise. CDFIs are leverage machines, developing ingenious ways to create new investment and new assets in the sectors and communities left behind by mainstream economics. We described the history of the Low Income Investment Fund in searching for strategies beyond housing to address poverty. This search opened channels to community impact that included leadership in the area of child care.

Other community capital organizations like The Reinvestment Fund (TRF) and NCB Capital Impact are opening other chapters as well. For example, TRF is pioneering a new pathway for investing in quality food stores in poor areas, with the goal of food access and nutritional support. With LIIF, TRF and NCB Capital Impact pioneered capital investment in charter schools; collectively, these three organizations have delivered nearly $700 million to the charter school industry. In total, CDFIs have a strong track record in human capital investments.

Boiling it down to its essence, CDFIs capitalize public support–housing subsidies, child care subsidies, health care subsidies–to create long-term assets that serve low-income populations and places for many years. But the most durable asset of all is a change in the life chances of a child.

Community developers are uniquely positioned to synthesize this new perspective with our more traditional work on the built environment. Our field operates at the nexus between people and place. Over the past 40 years, we have created scale, credibility, and perhaps most importantly, a voice that speaks for places and people left behind by the mainstream economy. By embracing a more integrated, holistic vision – and by focusing on what works, as President Obama has urged–the field of community development can become even more important to the goal of social progress and equality. To achieve this, we must aggressively advocate for impact analysis and cost-benefit reviews of our work. We must be willing to confront results that are less than we hoped for and correct our course appropriately. At the end of the day, doing less than this short-changes the ultimate goal of our work – giving all Americans an opportunity to reach their full potential.

Nancy O. Andrews is the president and CEO of the Low Income Investment Fund (LIIF), a $600 million Community Development Financial Institution. LIIF has invested $750 million in capital in low income communities, supporting 54,000 affordable homes for families and children, 100,000 spaces of child care and 44,000 spaces in school facilities. LIIF's capital has leveraged $5.1 billion in capital for low income communities, mobilizing $12 billion in family and societal income.

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