Investing in Kids: Early Childhood Programs and Local Economic Development

Timothy J. Bartik
Senior Economist
W.E. Upjohn Institute for Employment Research
bartik@upjohn.org
blog: http://investinginkids.net

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Main Points of *Investing in Kids* Book

- High-quality early childhood programs, like business incentives, can provide large “local economic development benefits”: higher per capita local incomes.
- Early childhood programs’ main way of affecting local economy is by increasing quality of labor supply as adults of former child participants in programs.
- Enough former participants will stay to significantly increase overall local labor quality.
- Per dollar invested, early childhood programs increase present value of *local* per capita earnings by $2 to $3.
Ratio of Increase in State Earnings Per Capita to Cost, 3 Early Childhood Programs, and Business Tax Incentives

Responding to Skeptics 1:
Why should I believe these claims that early childhood programs work?

• Because of limited access to early childhood programs, comparison groups are better than in most program evaluations

• Recent evidence for large-scale effectiveness from Oklahoma, West Virginia, South Carolina, New Mexico, New Jersey, Michigan, Chicago, North Carolina

• Even when test score effects fade, effects of early childhood programs re-emerge in adulthood due to soft skills
Re-Emergence of Pre-K’s Effects Suggests Importance of Soft Skills

Predicted percentage effects on earnings of Chicago’s Child Parent Centers based on:

- Kindergarten and 1st grade test scores: 8.1%
- 2nd through 6th grade test scores: 5.3%
- Mid-20s earnings: 7.3%
Responding to Skeptics 2: Are early childhood programs just needed for the disadvantaged, or do other groups gain?

Response: Available evidence suggests similar gains for middle-class

Gain due to pre-K in test score percentiles; Tulsa, Oklahoma

<table>
<thead>
<tr>
<th></th>
<th>Test score percentile gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free lunch kids</td>
<td>18.1</td>
</tr>
<tr>
<td>Full-price lunch kids</td>
<td>16.4</td>
</tr>
<tr>
<td>Free lunch kids</td>
<td>11.7</td>
</tr>
<tr>
<td>Full-price lunch kids</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: Bartik, Gormley, & Adelstein, 2011.
Responding to Skeptics 3: Will this really benefit not only local participants, but the entire local economy?

**Point 1:** Most participants will stay, even in smaller or distressed areas.

Note: Source is *Investing in Kids*, Tables 2.1 and 9.1. Note that percentage living in birth state is biased downwards, probably about 6%, because of listing of hospital as place of birth rather than residence of mother.
Responding to Skeptics 3:
Will this really benefit not only local participants, but the entire local economy?

Point 2: The skills of “other people’s children” matter to my wages

| Effect on earnings of those educated as % of total earnings (≈ 1% times 60% gain) | 0.6% |
| Effects on earnings of other 99% in local economy, as % of total earnings | 1.1% |
| Effects on earnings of non-college grads in local economy | 1.4% |
| Effects on earnings of college grads in local economy (excluding the newly educated) | 0.3% |

Effects of increasing percentage of local population that is college graduated by 1 percentage point

Responding to Skeptics 4: Are early childhood program benefits only long-term, or are there also short-term benefits?

**Point 1**: Parents will be attracted, increasing property values

<table>
<thead>
<tr>
<th>Effects of Preschool on Property Values</th>
<th>Based on effects on elementary test scores</th>
<th>Based on assumed full capitalization of earnings effects, 4.7% discount rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>% effect on property values</td>
<td>0.8%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Ratio of property value increase to annual program costs</td>
<td>13</td>
<td>81</td>
</tr>
</tbody>
</table>

Source: Table 7.3, *Investing in Kids*
Responding to Skeptics 4:
Are early childhood program benefits only long-term, or are there also short-term benefits?

Point 2: Savings in special education costs

![Graph showing cost savings from special education as a percentage of program costs over years after program implementation for targeted and universal pre-k programs.](image-url)
Summary of Business Case for Early Childhood Programs

• High-quality early childhood economies can pay off for entire local economy in stronger growth in per capita earnings

• Costs are modest: e.g., universal pre-K for 4-year-olds costs about $40 per capita, less than 3% of what we pay for K-12

• Business community is key to political viability of expanded early childhood program investment
What Should Be Going On?

- Universal pre-K: $40 per capita
- Other flexible early childhood programs: On order of $20 per capita to match Smart Start in North Carolina
- How to finance: possibility of “PKSE” financing for some of this
- Key is business community support
- Business community can and should insist on flexible system with accountability for results