Investing in Kids: Early Childhood Programs and Local Economic Development

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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, which is key factor attracting better jobs

- 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>Test score percentile gain</th>
<th>Free lunch kids</th>
<th>Full-price lunch kids</th>
<th>Free lunch kids</th>
<th>Full-price lunch kids</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-day Pre-K Program</td>
<td>18.1</td>
<td>16.4</td>
<td>11.7</td>
<td>11</td>
</tr>
<tr>
<td>Half-day Pre-K Program</td>
<td></td>
<td></td>
<td></td>
<td></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

<table>
<thead>
<tr>
<th>Effect on earnings of those educated as % of total earnings (= 1% times 60% gain)</th>
<th>Effects on earnings of other 99% in local economy, as % of total earnings</th>
<th>Effects on earnings of non-college grads in local economy</th>
<th>Effects on earnings of college grads in local economy (excluding the newly educated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.6%</td>
<td>1.1%</td>
<td>1.4%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

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
Responding to Skeptics 5: Do early childhood programs undermine the role of parents?

Point 1: Upper-income parents’ use of pre-K suggests pre-K complements parenting.
Responding to Skeptics 5: Do early childhood programs undermine the role of parents?

Point 2: Proven parenting programs are not a cheap alternative

<table>
<thead>
<tr>
<th>Program</th>
<th>Cost</th>
<th>Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nurse Family Partnership</td>
<td>$10,968</td>
<td>$18,561</td>
</tr>
<tr>
<td>High-quality half-day preschool</td>
<td>$5,393</td>
<td>$14,992</td>
</tr>
</tbody>
</table>
Responding to Skeptics 6: Shouldn’t we fix K-12 before tackling early childhood?

• High-quality early childhood works even if K-12 has challenges: Chicago CPC program reduces special ed assignments by 2/5ths, reduces felony arrests by 1/4th, increases # of HS grads by 10%, and increases age 26 earnings by 7%.

• Synergies between early childhood investments and K-12 investments: some research evidence that rate of return to investment in K-12 goes up with investment in pre-K, and vice versa.
Current Status of Early Childhood Programs

• Around the United States:
  – Big cutbacks in some states, such as North Carolina. In other states, sacrosanct (e.g., Oklahoma)

• In Michigan:
  – Modest expansions, consolidation of programs in state ed department
  – But Michigan has state pre-K for 17% of 4-year-olds vs. national average of 27%, and some states above 50%, e.g. Oklahoma at 71%
  – State funding of $3,400 for half-day program is less than $4,500 cost, so K-12 cuts put pressure on quality
% of 4-year-olds in State-Funded Pre-K

- Michigan: 17%
- U.S. avg.: 27%
- Georgia: 55%
- West Virginia: 55%
- Florida: 68%
- Oklahoma: 71%
Policy Options for Michigan Early Childhood Programs

- State pre-K for all eligible kids: increase from $100M to $200M. ($10 per cap to $20 per cap)
- Universal pre-K would cost $400M, less than 3% of K-12 budget
- Some increase in state $3400 payment would help support quality.
- Other flexible early childhood programs: $200M to match NC’s Smart Start.
- How to finance: possibility of “PKSE” financing for some of this, but general fund budget also benefits
- A sensible early childhood system should be a flexible system with accountability for results, pre-tests and post-tests, both soft/hard skills.
- Improved early childhood programs require support beyond education and social services advocacy community, in particular from business
High-quality early childhood programs should be part of local economic development strategies:

- Development strategies should work to improve labor supply, not just labor demand

- Among policies to boost quantity or quality of labor supply, early childhood programs have most rigorous evidence of large effects per dollar invested

- Long-term payoff through skills of former child participants

- Short-term payoff through attracting parents