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Responding to Skeptics of Early Childhood Programs as Local Economic Development

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“Responding to Skeptics of Early Childhood Programs as Local Economic Development”: Prepared remarks of June 28, 2011 of Timothy J. Bartik, Senior Economist, to business summits sponsored by Great Start Collaboratives of Cass and Berrien Counties, Michigan.

The main argument of my January 2011 book, “Investing in Kids”, is that high-quality early childhood programs can provide sizable local economic development benefits. By “early childhood programs”, I mean preschool or pre-k programs, high-quality child care, and high-quality home visitation programs that seek to improve parenting skills, such as the Nurse Family Partnership program. By “economic development benefits”, I mean increases in local per capita earnings.

This increase in local per capita earnings is what local economic development is all about. From benefit-cost analyses of more conventional economic development programs, such as business tax incentives, we know that their main economic benefit is the increase in local per capita earnings by attracting more and better jobs.

The main avenue by which early childhood programs increase local per capita earnings is by increasing the job skills as adults of former child participants in these programs. Many of these former child participants will stay in the same state or local economy as adults. The result is a local economy with higher quality labor supply. This higher-quality local labor supply will attract more jobs and better jobs to a state or local economy. These more and better jobs significantly raise local per capita earnings.

Based on rigorous research evidence, I conclude that for each \$1 invested in high-quality early childhood programs, a state or local economy will get \$2 to \$3 in economic development benefits. These economic development benefits are the present value of the increase in local per capita earnings.

To explore my book’s findings further, I will now consider a wide variety of arguments of skeptics. We only really understand the case for early childhood programs if we can provide reasonable responses to skeptics.

One objection is that former child participants in these programs will not stay in the same state or local economy. But research suggests that most will stay. Over three-fifths of all Americans remain in their childhood state for most of their working life. Over half of all Americans remain in their childhood metropolitan area for most of their working life. These percentages do not decline much for smaller or more economically distressed metropolitan areas.

Another objection is that providing more highly qualified workers does not directly create jobs. But this overlooks that higher quality local labor supply is one of the most important factors determining the business climate of a local economy.

In a more global economy, with lower information and communication costs, businesses increasingly are more footloose, in that they do not need to locate near their suppliers or their final product market. But businesses do need a supply of high-quality labor. The availability of high-quality labor supply is

increasingly a key factor driving regional competitiveness. Numerous studies show that local labor demand, that is the number and quality of local job creation, does respond significantly to local labor supply, the number and quality of local workers.

A third objection is that the benefits of early childhood programs for local per capita earnings are long-term. We obviously are not sending former preschoolers into the labor force at age 5. Therefore, the big increase in local labor force quality from former child participants in these programs will not occur for 15 to 20 years, when these former child participants enter the local labor force. In contrast, traditional economic development programs such as business tax incentives can potentially increase more and better jobs now.

However, this objection overlooks that early childhood programs do provide some short-term economic development benefits. The most important short-term benefit from early childhood programs is that such programs will help attract parents and raise local property values, which will immediately boost the local economy. Even in the unlikely event that parents put no direct value on early childhood programs, they will value some of the short-term educational effects of early childhood programs. For example, we know from numerous research studies that parents and homebuyers are willing to pay higher prices for homes that are assigned to schools with higher elementary test scores. These studies that compare similar homes in similar neighborhoods with different school test scores.

In my book, "Investing in Kids", I calculate the potential effect of high-quality preschool on property values from preschool's known effects on 3rd-grade test scores. Based on these calculations, for each \$1 in annual spending on high-quality preschool, local property values will go up by \$13. These property value effects reflect parents being attracted to an area with better preschools even if they don't directly value better preschools.

Another objection made by skeptics is that the effects of early childhood programs on test scores sometimes fade as children move to higher grades in the K-12 system. Such fading tends to be more pronounced in program effects on children's so-called "hard skills". Effects on so-called "soft skills" increase as children get older.

By "hard skills", I mean whatever is measured by reading and math tests. By "soft skills", I mean social skills and character skills. These soft skills include how I get along with my peers, and how I get along with teachers and other authority figures. These soft skills also include my ability to plan, and my self-confidence.

Early childhood programs have persistent effects on improving high school graduation rates and adult employment rates even for children for whom the programs have no long-run effects on IQ. What is going on here? Consider a child who in preschool develops better relationships with peers and the teacher, better planning skills, and more self-confidence. In kindergarten, these skills will lead to better interactions with peers and with teachers, and to still more self-confidence. The child then does better in first grade, and so on. This virtuous cycle builds on itself into adulthood. We know that success in

many jobs is at least as dependent on soft skills as on hard skills. For example, worker productivity depends a great deal on how the worker deals with co-workers, supervisors and customers, and whether the worker shows up reliably on time.

One reason why some state legislators and other policymakers are skeptical about early childhood programs is a general skepticism about the claims made by program advocates. Why should legislators and other policymakers believe advocates for early childhood programs more than they believe advocates for all these other programs?

In the case of early childhood programs, we have far more rigorous evidence for success than is the case for most government programs. The evidence for early childhood programs is more rigorous than for other government programs because early childhood programs have studies with better comparison groups.

For early childhood programs, we have good evidence of effectiveness from studies with randomly assigned treatment and control groups. These include the Perry Preschool Program, the Abecedarian child care and preschool program, and the Nurse Family Partnership program. One good random assignment study trumps 50 studies with poorly chosen comparison groups. We actually have more rigorous evidence for the benefits of preschool than we do for the benefits of 3rd grade. The reason is simple. We are able to do random assignment experiments that exclude some children from preschool, whereas we can't randomly assign some students to not attend 3rd grade.

But, skeptics might object, these results are for small-scale programs run by researchers. Surely results should be weaker when programs are run by the average state or local government. However, we also have good studies showing large short-run benefits from programs run by typical state and local governments. From studies of Oklahoma, West Virginia, South Carolina, New Mexico, New Jersey, North Carolina, and yes, Michigan, we have evidence that one year of half-day preschool can raise student learning during that year by 50 to 100%. These studies use good comparison groups, usually by comparing students at kindergarten entry who just made the age cutoff for participating in the state pre-k program, with students at preschool entry who just missed the age cutoff.

There also is a very good study showing that the Chicago Child-Parent Center program, run by Chicago Public Schools, produces large long-run benefits. This study has a good comparison group, comparing students in neighborhood schools that had this preschool program, with students in similar neighborhoods without the program.

If Chicago Public Schools and all these different states can run effective large-scale preschool programs, then a wide range of state and local governments can carry out effective preschool programs

Another complaint about early childhood programs is why we should be devoting government funds to this when our K-12 system faces so many challenges? Sometimes you hear the complaint that we shouldn't give money to the public schools to run preschool given the problems the schools face in

operating the K-12 system. Two points. First, early childhood programs do not have to be run by public school systems. Preschool programs have been run successfully by public school districts in many states, including Michigan. However, preschool programs have also been run successfully by providing public funds to private preschools, as we also do in Michigan, and as is done wholesale in Georgia. Preschool programs have also been run by giving parents vouchers for preschool, as is done in Florida.

But the more important point is that there is no contradiction between both expanding preschool programs and improving K-12 education. Expanding preschool programs has a very high rate of return, much higher than many investments in K-12 education. Preschool education can have long-run benefits even if we do nothing to improve the K-12 system. However, improvements in K-12 can help make those long-run benefits even greater.

Another question about early childhood programs is whether these programs are really needed except for the most disadvantaged kids. This really is an issue mostly with preschool programs. Most other early childhood programs, such as the Nurse Family Partnership, are by design targeted on the disadvantaged.

The evidence for preschool programs suggests that the benefits of preschool are almost as strong for children from working class and middle class families as they are for children from low income families. Oklahoma runs a near universal preschool program, with 70% of all four year olds enrolled in the state program. Research studies suggest that the effects of Oklahoma's program on kindergarten readiness are almost as large for children from middle-income families as for children from low-income families.

It is noteworthy that preschool enrollment rates are by far the highest for children from families with over \$100,000 in family income. Obviously upper-income families feel preschool benefits their children.

Why might preschool be beneficial for children from all types of families? One possible explanation is that some social skills are hard to teach outside of a preschool setting.

Now, upper income families can afford high-quality preschool without a government subsidy. But many middle class as well as poor families cannot. Studies from the Institute for Women's Policy Research suggest that high-quality half-day school-year preschool probably costs around \$4,500 per year, which is difficult for many working class families to afford.

Another argument is that public funding for some children to attend early childhood programs is unfair to families that do not need such assistance. For example, the well-known writer Dinesh D'Souza argued in one of his books that he and his wife are "working to give our daughter... a better chance to succeed than other children", and that therefore it is unfair for government to "work to raise other people's children up".

But this argument mistakenly assumes that we are engaged in some zero-sum competition for a fixed number of good jobs. The research actually suggests that when everyone benefits when "other people's children" get better education. For example, research suggests that when a metropolitan area has a higher percentage of college graduates, this improves the wages of all groups in the metropolitan area.

Production is a team activity. My productivity will be increased if my fellow workers in that same business have higher skills. Within a local economy, the productivity of one business may be increased by having more skills and productivity in other businesses. Businesses steal ideas and people from other businesses to boost their productivity. Businesses share suppliers, and the productivity of my business will depend on the productivity of my suppliers and whether my suppliers have sufficient other customers to stay in businesses.

A final objection to early childhood programs is “why do kids today need preschool when I didn’t need it”. First, I think we know more today about how crucial the birth to five period is to long-run child development. Second, there have been changes in society that may make early childhood programs more necessary. There are more fragile families than there once were, that need extra assistance. Obviously we also need to address the issue of why there are so many fragile families, but once the kids are born, that child certainly warrants our assistance to improve their chances of being successful as an adult.

In sum: a state or local area’s investment in high-quality early childhood programs can pay off for local areas in significant economic development benefits in increasing per capita earnings. This payoff can occur even in the short-run, due to the value that parents place on such programs, which will attract in-migrants and raise property values. The evidence for these short-run and long-run effects is stronger than for most other government programs, because we have research studies with good comparison groups. These payoffs in a stronger economy pay off for a wide variety of income groups participating in the programs, and in fact benefit even non-participants by enlarging the entire economic pie.

Even in a time of budget crisis, states and local areas should be exploring how to expand their investments in high-quality early childhood programs. This is an essential part of a comprehensive strategy to improve state economies. Improving the business climate is more than just addressing business taxes and regulations: it also includes how we develop our human capital. One of the highest return ways to improving your state or local area’s human capital is to invest in early childhood programs.

What is actually occurring around the country is mixed. In many states, early childhood programs are being cutback, for example most recently in North Carolina, which has had programs with nationally recognized quality. In other cases, such as Iowa, proposed large-scale cutbacks have been at least temporarily defeated. In still other cases, such as Oklahoma, universal pre-k is so well-established that there are no serious attempts to significantly cutback these programs.

In Michigan, despite cuts in many other areas of the budget, funding for pre-k education was largely held harmless. In addition, Governor Snyder has decided to consolidate early childhood services within an office in the Department of Education, which should both help improve program coordination, as well as place more stress on educational content in early childhood programs.

However, Michigan is currently behind the average state in what it does in early childhood education. For example, 16% of all Michigan four-year-olds are currently enrolled in state-financed pre-k programs, which is about one-third below the national average of 27% of all four-year-olds in state-funded pre-k programs. Furthermore, Michigan is far below the program activity found in the leading states. For example, Oklahoma is the leading state in providing high-quality universal pre-k for all four-year-olds. In Oklahoma, 71% of all four-year olds are in state-financed pre-k programs. With the addition of Head Start programs, and private pre-school, Oklahoma essentially has universal pre-k for all four-year-olds. For Michigan to match Oklahoma, we would have to increase four-fold our enrollment and funding in state-financed pre-k.

In addition, the significant cuts made to K-12 in the recently adopted Michigan budget are likely to spill over into reducing access to high-quality pre-k programs. Most state financed pre-k in Michigan is actually operated by local school districts. The state provides \$3,400 in funding for a half-day program. Since 2000, the per-child funding for Michigan's pre-k program has grown by 3% while the Detroit Consumer Price Index has grown by 25%.

A half-day of high-quality preschool currently probably costs about \$4,500. With only \$3,400 in funding from the state, school districts that want to reliably provide high-quality preschool need to provide a considerable local subsidy. With the budget cutbacks in K-12 districts, I predict that some districts will need to cut back on their size of their pre-k program. Other districts will end up skimping on quality of their pre-k programs as part of budget cutbacks.

What can be done at the state level to improve early childhood programs? In Michigan's case, I think the state needs to step forward and make a major expanded commitment to early childhood programs. In the short-run, I suggest that the state considerably increase the state subsidy to pre-k. For example, to make up for little increase in state funding per child over the last 10 years, I would suggest increasing the state funding amount from \$3400 to \$4000, an increase of 18%, which would make up for most of the loss to inflation in program funding over the last 10 years. This would encourage K-12 districts to continue operating pre-k programs at a high-quality level. This higher per student funding amount would also allow state-funded private pre-k providers to be better able to afford quality programs without depending on getting great preschool teachers at substandard wages. The cost of this program expansion would be an increase in the state pre-k budget of a little under \$20 million.

In addition, in the short-run, Michigan should at least set a goal of matching the national average of state-subsidized slots for pre-k for four year olds. This would require a further one-third expansion of funding, and would cost an additional \$80 million. Combined, these two program expansions would cost \$100 million, and would approximately double the state's commitment to pre-k.

\$100 million is of course from many perspectives a lot of money. But in the context of the K-12 budget of \$12 billion, it is not a huge amount of money. This funding increased is about \$10 per Michigan resident. As I argue in my book, the long-term return to the state's economy would be at least 2 to 3

times as great in higher per capita incomes. And the short-term increase in property values would be at least 13 times as great, or a \$1.3 billion increase in property values.

Over the long-term, I think the state needs to move towards support for universally accessible pre-k for all four year olds, as well as more flexible support for more intensive early childhood programs for at-risk children. In my ideal world, Michigan would simply guarantee \$4500 for half-day school-year preschool for all four-year-olds. The estimated cost of doing so would be an additional \$400 million over the current budget for state-funded pre-K, or about \$40 per Michigan resident. I would prefer that the state do so through a payment that could go to pre-k provided through public schools, as well as pre-k provided by private preschools. All preschool providers would be required to meet quality standards. Ongoing data would be collected on how much students learn from pre-k as of kindergarten entrance. This would allow the state to evaluate different providers, and hold these providers accountable for results.

In addition, the state should provide more intensive services for a wide variety of early childhood programs for children under five. The program would be modeled after the Smart Start program in North Carolina, which has good evidence supporting its effectiveness. A program similar to Smart Start would cost about \$175 million per year in Michigan, or about \$18 per Michigan resident. As with Smart Start, county level agencies would be empowered to fund a wide variety of child care, parenting assistance, and other activities to improve early childhood development in each county. The funds would be sufficient to average, across all children under 5 in the county, about \$250 per child in annual assistance for each year a child is under age 5. These services would not be evenly divided among all children in the county, but rather targeted at families and children that are at highest risk of problems without assistance.

A recent Duke University study suggests that Smart Start by itself raises a county's average 3rd grade test scores by the equivalent of what students learn in 2 months. In addition, the program reduces the probability of a special education placement at 3rd grade for all county children by 10 percent. These results are remarkable because only a fraction of a county's children typically have intense involvement with Smart Start programs.

I do not think local areas should necessarily wait for a change in state policy towards early childhood programs. These programs can pay off in economic development benefits at the local level.

At the local level, I think the same early childhood investment goals should be pursued, but of course the local resources available are more limited. As I have outlined, universal pre-k at a proper funding level probably costs an additional \$30 to \$40 per capita, and other early childhood program services might cost an additional \$18 per capita.

In Kalamazoo County, a group I have been involved with for the last 3 years, now called KCRReady4s, is trying to move towards universal pre-k for all county 4 year olds. This plan would cost around \$35 per county resident.

What are possible local sources for such funding? Some possible sources that we are exploring in Kalamazoo include tuition payments from some families, charitable donations from private individuals and foundations, and potentially in the long-run, some type of countywide millage.

One potential revenue source that is currently being discussed at the national level, in several states, is what is labeled “Peeksee” financing of pre-k education. Peeksee is an acronym standing for “PKSE”, which are the initials for “Pre-k special education”. The idea is that a group of private donors would agree to fund expanded pre-k programs for a 10 year period. In return, local school districts would agree that they would put demonstrated savings in K-12 special education costs from expanded pre-k into a fund to continue the pre-k services. Depending upon the magnitude of special education cost savings, such cost savings might be sufficient that these expanded pre-k services would be sustainable and even sufficient to allow pre-k services to be steadily expanded over time. There are some ongoing demonstration projects in Utah, Colorado, and Minnesota to see how this works out financially. Even if the special education cost savings are not sufficient to fully finance pre-k education, such cost savings might considerably reduce the net tax cost.

What can make expanded investments in early childhood programs politically viable? Both at the state and local level, in my opinion the key to political viability is the business community. Child care and preschool operators and early childhood advocates by themselves are simply not a powerful enough political coalition to push through program expansions of sufficient magnitude to have a large state or local economic impact.

Why should the business community make this a priority? Because the quality of the labor force is absolutely key to the future of the state or local areas in which they make investments. And of all the things that can be done to increase the quality of the local labor force, investing in early childhood programs is one of the most cost-effective way of doing so. In other words, investing in early childhood programs, compared to other possible programs, achieves higher labor force quality at a lower net tax cost. If we care about local economic development, investing in early childhood programs is one of the ways of achieving economic development goals that has the highest bang for the buck.