

Economic Development Benefits of Early Childhood Programs

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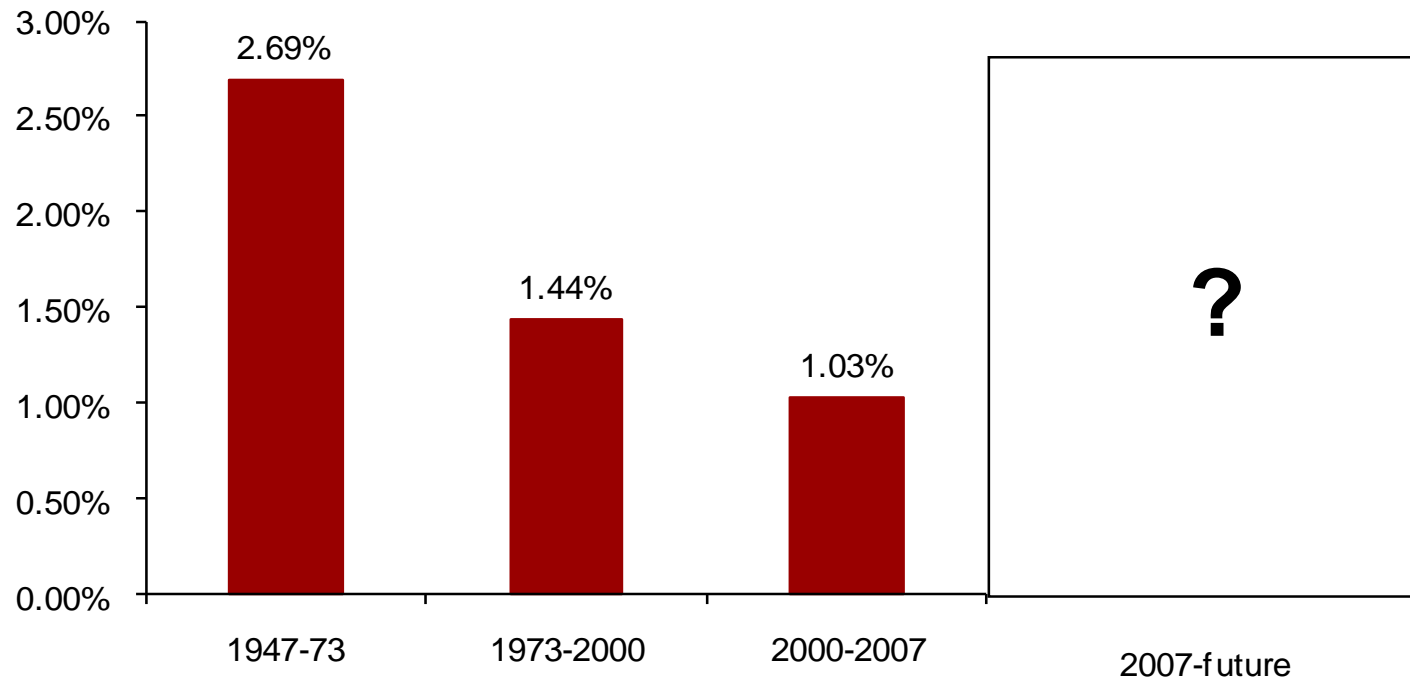
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Per Capita Income Growth Has Slowed Over Time

Annual Growth Rate of Real Per Capita Income, U.S.



■ Annual Growth Rate of Real Per Capita Income U.S.

What Determines Per Capita Income?

State Per Capita Income

“Creative class” attraction
Job training
Higher ed.
K-12
Early childhood programs

Labor Supply

Tax incentives/attraction
Entrepreneurship
Services to existing business
Business services/taxes
Overall services/taxes

Labor Demand

Skills Are Becoming More Important

“The gap between the skills employers need and those available in the workforce may grow even larger in coming years, a new survey shows.”

Wall Street Journal, October 2009

And People are Hardest Resource to Move:

“A man is of all sorts of luggage the most difficult to be transported.”

Adam Smith, *The Wealth of Nations*, 1776

Three Types of Early Childhood Programs

Home Visitation

Example:
Nurse Family Partnership

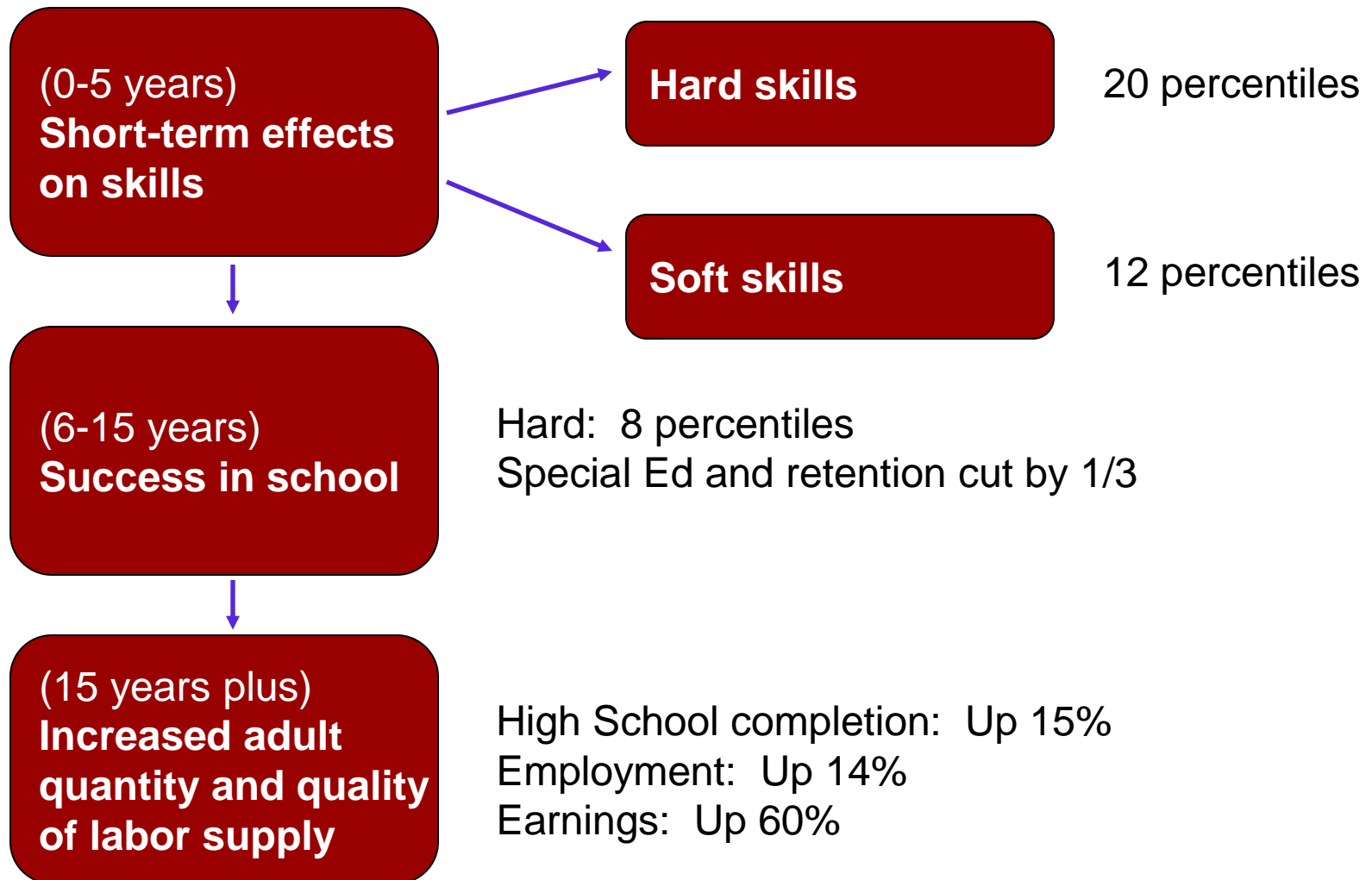
Child Care

Example:
Abecedarian Program

Pre-K

Examples:
Chicago Child-Parent Ctrs
State Pre-K Programs

How Early Childhood Programs Affect Labor Supply by Affecting Children



How Is It Possible for Early Interventions to Have Such Large Long-Term Effects?

“Skill begets skill and learning begets more learning. Early advantages cumulate; so do early disadvantages.”

James Heckman, Professor of Economics
University of Chicago and
2000 Nobel Laureate in Economics

How Early Childhood Programs Affect Labor Supply by Affecting Parents

**Short-term
increase
in work
or school**

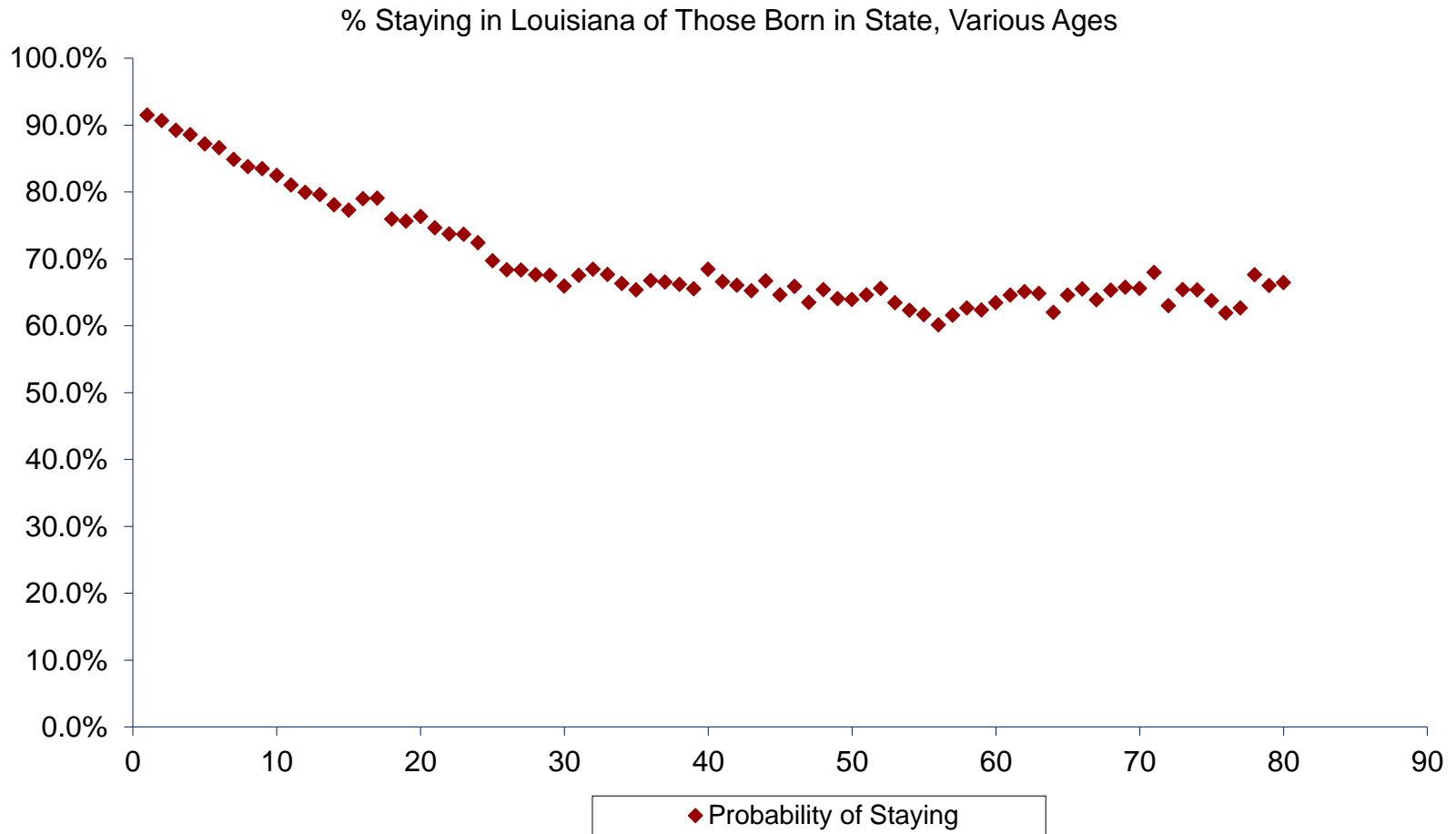
Child care:
Employment up by 20%
Parenting: Up by 5%

**Increase
in
skills**

**Long-term
earnings
increase**

Earnings increase: 30%

Will Children Stay in the State? Yes

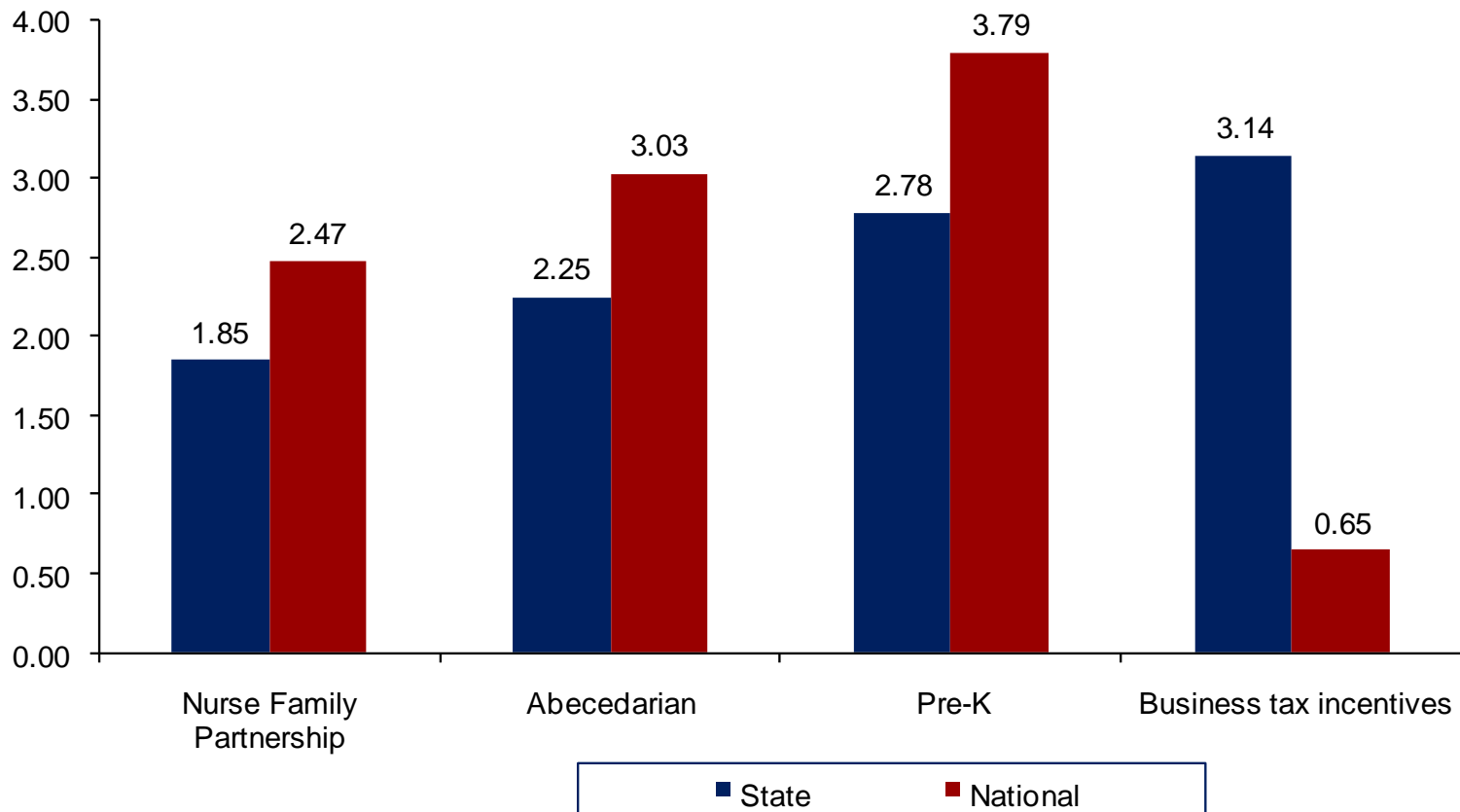


SOURCE: 2000 Census.

The Bottom Line

Early Childhood Programs Increase State and National Earnings by Far More Than They Cost

Ratio of Present Value of Earnings Increase to Present Value of Costs, State and National Perspective

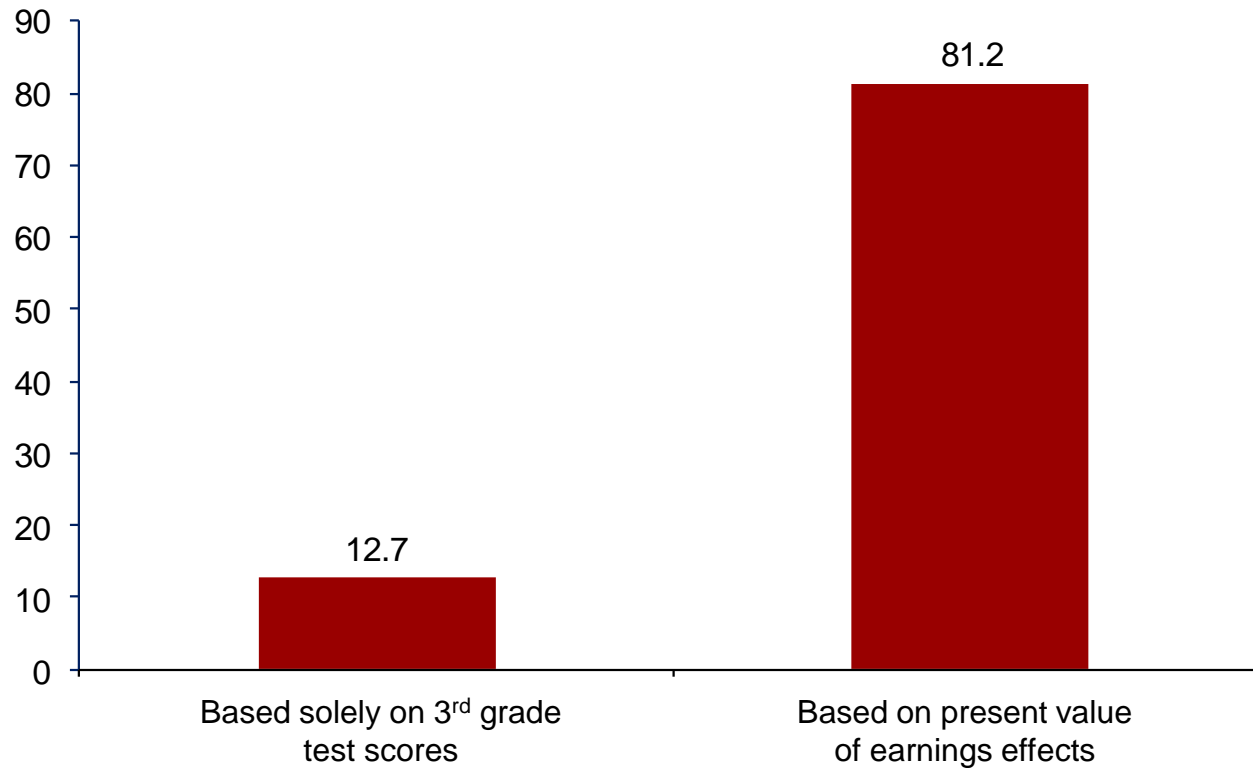


Short-Run Benefits of Early Childhood Programs

- “Demand” effects of tax-financed hiring of more workers in these programs will increase state earnings immediately by about 17% of the spending
- Immediate effects on parent earnings are nil for NFP, but are 5% of program costs for pre-K and 14% for Abecedarian program
- Special ed. cost savings over next 13 years offset from 20 to 30% of the program costs for early childhood programs
- Possible property value benefits

Possible Property Value Effects of Pre-K

Ratio of Property Value Effects to Annual Program Costs



What Has Justified Educational Investments in the Past?

Iowa Department of Public Instruction, 1914:

“The landlord who lives in town ... may well be reminded that when he offers his farm for sale it will be to his advantage to advertise, ‘free transportation to a good graded school.’ Those who have no children ... must of necessity rely upon someone, they know not whom, who is today in the public schools.”

Note: Quoted in Claudia Goldin and Lawrence Katz, *The Race Between Education and Technology*.

Conclusion

- A balanced economic development strategy includes both labor demand and supply policies
- High quality early childhood programs increase the quality of a state's labor supply by a large amount compared to costs.